

# FINANCIAL TIMES

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D 8523 B

Why all bets  
are off in  
Japan, Page 10

## NEWS SUMMARY

### GENERAL

#### Israel prevents Arafat exit

Israel's naval bombardment of the northern Lebanon port of Tripoli prevented Yasser Arafat from leaving. But last night five Greek ships left Cyprus for Tripoli. The Israelis sank a small Lebanese ship, damaged a Cyprus-registered ship, but allowed an Italian vessel to take off injured PLO fighters. Page 3

In Jerusalem, an American woman tourist became the sixth to die as a result of a PLO bomb attack two weeks ago.

#### U.S. envoy in Iraq

U.S. special envoy in the Middle East Donald Rumsfeld visited Iraq, which broke off relations with the U.S. after the 1967 Arab-Israeli war, to gain support for restoring peace in Lebanon.

#### Explosion check

London anti-terrorist squad detectives interviewed a dealer who four weeks ago sold the car used in the bomb attack on Harrods store on Saturday, in which five people were killed. A businessman has offered a £250,000 (\$354,000) reward for information leading to conviction of those responsible. Page 12

#### German bomb arrests

West German police have arrested four young men near Rüsselsheim, near Frankfurt, on suspicion of planning bomb attacks on U.S. bases.

#### Nordic-Africa talks

Nordic countries have invited foreign ministers from Angola, Zambia, Zimbabwe, Botswana, Mozambique and Tanzania to Stockholm in April to discuss the "worsened situation in southern Africa".

#### 'Attack on Angola'

Angola accused South Africa of an air attack on a southern town, killing dozens of civilians and destroying a school and hospital.

#### Jamaica reshuffle

Jamaican Premier Edward Seaga reshuffled his Cabinet, appointing Mr Hugh Hart Minister of Mining, a post he had previously held himself.

#### Gunmen kill 10 Thais

Five men fired machineguns into a crowd of Thai villagers watching television, killing 10 and wounding three.

#### Spy chief resigns

Australian Secret Intelligence Service director John Ryan resigned after a bungled mock anti-terrorist raid on a Melbourne hotel by 12 agents this month. Page 3

#### Chinese cure

Chinese doctors have found a new remedy for menstrual pains and dizziness: cotton wool soaked in alcohol and placed in the patient's ear.

#### Princess to marry

Princess Caroline of Monaco, 28, is to marry for the second time. The groom is Italian oil and property heir Stefano Casagrande, 23.

#### Car surgery protest

Swiss children's psychiatrist and six friends dismantled his car, a Renault, and sold parts to passers-by in a Basle protest against pollution.

### BUSINESS

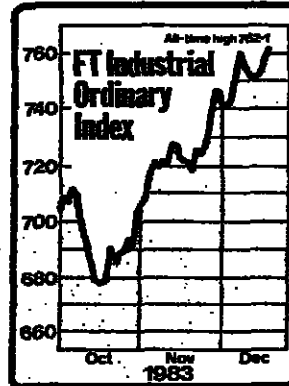
#### Mexico granted a \$4bn credit

MEXICO'S commercial bank creditors have agreed to arrange a \$4bn credit to help it cover its 1984 balance of payments requirements. Page 4

DOLLAR fell to DM 2.773 (DM 2.778, FFf 8.475 (FFf 8.475), but improved from Y255.7 to Y254.15. Its Bank of England trade-weighted index, logged before the close, rose from 131.1 to 131.2. Page 29

STERLING rose 45 points to \$1.485, and to DM 3.503 (DM 3.503, FFf 11.985 (FFf 11.985), SwFr 3.14 (SwFr 3.135), and Y255.25 (Y255.25). Its trade weighting rose from Friday's \$1.9 to \$2.1. Page 29

GOLD rose \$1.25 in London to \$375.125 and by \$8.75 in Zurich to \$375.25. It dropped \$2.25 in Frankfurt to \$375. In New York, the Comex December settlement was \$373 (\$372.6). Page 28



LONDON: FT Industrial Ordinary index improved 2.3 to a record 762.1. Report, Page 23. FT Share Information Service, Pages 24, 25

WALL STREET: Dow Jones industrial average closed 2.44 up at 1,244.61. Report, Page 19. Full share prices, Pages 20-22

TOKYO: Nikkei Dow index fell \$1.67 to 9,454.17 and the Stock Exchange index dropped 1.59 to 701.22. Report, Page 18. Leading prices, other exchanges, Page 22

EUROPEAN PARLIAMENT President Pieter Dierckx is expected to sign today final adoption of the 1984 EEC budget freezing UK and West German rebates, despite protest from foreign ministers that the parliament is exceeding its powers. Page 12

INTERNATIONAL BANKS in Western industrial nations made new loans of \$10bn to the rest of the world in first-half 1983, only a third of the 1982 figure.

ZAIRE began talks in Paris about rescheduling payments on debts, now about \$5bn, for the sixth time since 1976.

COLOMBIA is to seek new loans of more than \$800m in the next six months. Page 4

NEW ZEALAND Forest Products, 24.9 per cent of whose shares were acquired by the Wattie-Goodman group last month, offered about a third above Friday's closing price for 24.9 per cent of Wattie's. Page 14

KUALA LUMPUR-KEPONG, Malaysia's fourth largest plantation group, has bought Sri Kinak Plantation for 189m ringgits (\$82m). Page 13

VOLKSWAGEN, West German car maker, forecasts a loss for the year of about DM 300m (\$108.6m), the same as last year. Page 13

BUTONI PERUGINA, the Italian foods group, has dropped plans for an alliance with French confectionery maker Poulain. Page 13

SHKILL-ESSO project to build a \$315m (\$440m) North Sea gas pipeline from the Fulmar field was approved by the UK Government. Page 6

## Shell wins leading role in Nigerian gas export project

BY MICHAEL HOLMAN AND QUENTIN PEEL IN LONDON

Shell has been appointed project leader for the Nigerian Government's proposed \$6.6bn liquefied natural gas (LNG) export scheme. The decision was taken after a series of meetings with oil majors operating in Nigeria on how to revive the massive project after a series of setbacks.

It represents a major step towards realisation of the scheme to exploit Nigeria's huge gas reserves and replace oil as the country's main foreign exchange earner. Western Europe is seen as the likely market.

Shell was chosen as project leader ahead of Elf-Aquitaine and Agip, the other partners in the former Bonny LNG consortium which went into voluntary liquidation last year.

Several key factors were behind the decision, according to industry officials. They include Shell's experience in LNG schemes, its position as operator of the largest oil company in Nigeria, with huge unexploited gas reserves, and its good contacts with the gas markets in both Britain and West Germany, the most likely buyers of Nigerian LNG.

The tentative date for completion of the LNG scheme is the early 1990s, but the critical issue now to

be resolved is where and at what price the daily output of 1bn cubic feet can be sold.

The LNG scheme is virtually the only major capital project in Nigeria to survive drastic cuts, because of the current oil glut, and the consequent drop in both foreign exchange earnings and government revenues. It is intended that the project should be effectively self-financing once the initial equity capital has been found.

Shell's selection as project leader means there will only be two equity partners - Shell and the Nigerian National Petroleum Corporation (NNPC), which will retain a majority shareholding. However, other gas producers, such as Elf and Agip, will be able to supply gas to the proposed plant.

The decision also means that Shell's Air Products process is now more likely to be chosen for the

plant than the rival Technip process used by Elf.

The Nigerian Government originally envisaged a six-train (processing unit) plant, which would have cost some \$14bn, but this was subsequently reduced to half the size, in part because of government misgivings over the massive scale and finance required.

The proposed funding for the revised scheme is for supplier credits totalling some \$4bn, between \$1.35 and \$1.75bn in equity capital from the partners, and some \$1bn from a syndicated Euroloan.

Pricing of the Nigerian gas will be critical to any attempt to break into the European market, and industry officials say it will be more expensive than gas from the Soviet pipeline but cheaper than Algerian gas.

Gas pipeline go-ahead, Page 6

## Saudis 'withdrew \$10bn from banking system'

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

SAUDI ARABIA pulled \$10.2bn out of the international banking system in the first half of this year as it ran down its reserves to offset declining oil revenues, according to figures from the Bank for International Settlements (BIS).

The withdrawals totalled nearly a quarter of the amount Saudi Arabia held on deposit with Western banks at the start of the year.

By the end of June it was left with only \$31.6bn, although its total foreign exchange reserves, which also include holdings of government securities and gold, are much higher.

The BIS figures give one of the first concrete indications of the impact that lower oil prices have had on the country's finances this year. Some bankers believe that the run-down of reserves is also attributable

to continuing assistance to Iraq in its war against Iran.

Saudi Arabia, which only just managed to run a balance of payments surplus in 1982, faced a 48 per cent fall in oil exports to 638.5m barrels in the first half of this year.

Official Saudi figures show oil revenues fell 54.5 per cent to \$17bn in the same period.

But the BIS report also shows that other oil exporters have had to run down their deposits with Western banks. Notable falls were posted by Iran, Iraq and Libya as their exports fell, it says. Total Middle Eastern deposits in Western banks fell \$16.4bn in the first half of this year.

The latest BIS figures, which cover the maturity distribution of international bank lending, are much more detailed than the bank's

quarterly data on international banking flows.

Like that series, however, the new figures confirm a sharp slowdown in international bank lending in the first half of the year.

A particularly worrying aspect was a further decline in undrawn credit commitments to countries outside the BIS reporting area - the group of 10 leading industrial countries, Switzerland, Austria, Ireland and Denmark, as well as leading offshore centres.

These fell a further \$2.8bn, suggesting that there will be no immediate relaxation of the squeeze on borrower nations.

The figures suggest, however, that banks are taking more care not to pile up too many short-term loans to countries in potential trouble.

## Nakasone's authority undermined by election losses

By Jurek Martin in Tokyo

AN IMMEDIATE weakening in the political authority of Mr Yasuhiro Nakasone, the Japanese Prime Minister, seems the inevitable consequence of the crushing loss in Sunday's general election of his ruling Liberal Democratic Party's (LDP) absolute majority in the Diet (parliament).

The LDP is still expected to form the next government, without recourse to a coalition by recruiting its ranks at least nine and possibly 11 of the 18 newly elected independent Diet members. This would give the LDP an effective representation of about 260 seats in the 311-member parliament.

It also seemed probable last night that Mr Nakasone would remain as head of the Government, but only largely because the severity of the LDP's setback so affected most of its potential rivals for the party leadership that none appeared ready to launch an immediate challenge.

Much, however, will depend on whether he can put together a new Cabinet which succeeds in balancing the competing forces inside the LDP. Judging by the savagely critical comments about him circulating last night, this will prove extremely difficult. In any event, he can expect considerable opposition when, or if, he seeks re-election as party leader next autumn.

A noticeably subdued Mr Nakasone apologised at a news conference for the election results and promised to "start again" in running the country. But the Prime Minister was a relative picture of confidence compared with the abject appearance of Mr Susumu Nakaido, his party's secretary-general and chief election strategist. He promised to resign.

The early trends of Sunday night's counting were confirmed yesterday when results from the major cities of Tokyo, Yokohama and Osaka flooded in. The LDP's final tally of 250 seats represented a net loss of 30 from its parliamentary strength; dissolution; no poll or forecast, not even from the opposition, had predicted so poor a result.

Moreover, matched against the LDP debacle, was the spectacular personal victory of former Prime Minister Kakuei Tanaka, whose conviction in the Lockheed bribery trial and subsequent refusal to

Continued on Page 12

Why the bets are off, Page 10

## New Airbus boosted by \$200m order

BY MICHAEL DONNE IN LONDON

AIRBUS INDUSTRIE has decided to go ahead with development of its new A-330 aircraft after receipt of a \$200m order from Inex-Adria, a Yugoslavian airline, for five aircraft, with another three on option.

That increases pressure on the British Government to approve more than £400m (\$570m) launch aid for the British Aerospace share of the proposed 150-seat airliner. BAE wants to build the wings of which would complement the European Airbus consortium's production of the existing A-300 and A-310 models.

M Bernard Lathiere, Airbus president, said the consortium's members had decided to press ahead with the project because, in the light of the Inex-Adria order, "the industrial and marketing conditions we had set ourselves have been fulfilled".

If the British Government, therefore, decides not to support the A-330 financially, obliging BAE to withdraw, the aircraft will still be developed, probably with other partners replacing BAE. The UK company has accepted the possibility that that situation might occur.

BAE is anxious to participate, however, and has recently even

been considering the possibility of raising some money in British financial markets if the UK Government decides to limit the amount of launching aid it could provide.

BAE could probably raise about half the £400m needed in the market if forced to do so. But if the Government rejected all financial support, BAE would be obliged to pull out, because it could not afford the debt involved in raising all £400m from the market.

The Government itself continues to hold back from a decision. Mr Norman Lamont, Minister for Industry, told a union delegation yesterday that although the Government recognised the importance of both the A-330 and the projected new V-2500 international jet engine, a decision would not be likely before January.

Together with £113m sought by Rolls-Royce for its share of the engine, the two companies collectively want over £500m in launch aid, repayable from levies on eventual sales of aircraft and engines.

The Inex-Adria order is the fourth for the A-330, bringing total firm orders and options to 88 aircraft. Continued on Page 12

## Cartel go-ahead for Grundig plan likely

BY JOHN DAVIES IN FRANKFURT AND WALTER ELLIS IN AMSTERDAM

THE WEST German Cartel Office is expected to allow Philips, the Dutch electronics group, to go ahead with its plan to take management control of Grundig, the German consumer electronics manufacturer.

It said yesterday that it expected to hold talks with the two companies next month, although no definite date had been set.

Four years ago, the office obstructed a plan by Philips to increase its present 24.3 per cent stake in Grundig. But an official said that the landscape had changed since then, and referred to the build-up by Thomson-Brandt of France of its interests in West Germany.

Grundig yesterday declined to disclose the likely financial arrangements with Philips, emphasising that the final details were not yet decided.

According to Philips, negotiations on the increased participation required to give it day-to-day control of Grundig should be concluded shortly.

Reports in Germany point to a final Philips holding, in co-operation with the banks, of around 51 per cent. The Dutch group has refused to comment on reports that it might make a convertible loan to Grundig or give Dr Max Grundig, founder and current majority shareholder of the German acquisition, a cash payment.

According to Dutch bankers, the European banking consortium is being put together by Dresdner Bank, house bankers to Grundig.

Continued on Page 12

Editorial comment, Page 16; High drama in electronics, Page 13; Lex, Page 12

## Sony predicts sharp recovery as earnings decline by 35%

BY YOKO SHIBATA IN TOKYO

SONY CORPORATION, the Japanese-based electrical group, suffered a 35 per cent setback in consolidated net income in the year to October 31 to ¥29.8bn (\$128m), but expects a recovery by about 70 per cent to ¥50bn to the current year.

The expectations, says Sony, are based on higher demand for Beta-matrix video cassette recorders (VCRs) in Japan and the U.S. The company places high hopes on the Olympic Games in Los Angeles, and on further reductions in inventories, which were trimmed by ¥94.6bn to ¥269.7bn last year.

The company plans to bring annual production of VCRs to its full capacity of 2.6m from the 2.23m achieved this year.

The three months to October 31 brought a sweeping recovery in performance, with Sony's net income reaching ¥12.7bn, five times the ¥2.5bn of the comparable quarter.

Consolidated sales for the year to October were slightly down by 0.3 per cent to ¥1,106bn (\$4.7bn), but turnover for the current year is forecast to gain 12.5 per cent to ¥1,250bn. The fourth quarter just

past brought a rise of 10.3 per cent to ¥300.2bn.

Overseas sales last year fell 4.8 per cent to account for 71 per cent of the total. Latin American sales showed a fall of 53.4 per cent. Against this, domestic sales rose 13.2 per cent on the back of strong VCR sales, to reach 28.9 per cent of the overall figure.

A breakdown of last year's sales by product shows video equipment - including VCRs, cameras and tapes - falling by 3.6 per cent in value to make up 41.1 per cent of the total. Volume sales of VCRs rose 18 per cent to 2.23m, helped by new products such as the Beta hi-8 models and the Beta Movie, the home movie recorder.

Sales of television sets rose 1.5 per cent, at 24.1 per cent of total turnover - but audio equipment revenues were down 2.9 per cent to account for 22.1 per cent. Only 260,000 Walkman portable stereo cassette tape recorders were sold, compared with 290,000 the previous year.

Sony will market its optical video disc players for consumer use next

spring. It has chosen the laser-type system which has been in production for two years for commercial use.

Video disc players produce clearer pictures, but do not have recording capacity. At present 700 software titles are available for laser-type video disc players.

Yamaha Motor, the world's second biggest motorcycle manufacturer, after Honda, suffered a heavy parent-company net loss of ¥14.07bn (\$59.7m) in the six months to October 31, compared with a profit of ¥5.14bn in the comparable period last year, writes our Financial Staff. Sales during the period plunged to ¥108.7bn from ¥224.5bn.

The group, which has suffered from falling sales and high inventories of motorcycles, is paying no interim dividend and forecasts a parent-company net loss of ¥33bn for the full year.

Last month, Yamaha cut wages by 5 per cent and announced that it was seeking 500 voluntary redundancies from its 11,000 employees.

Lex, Page 12



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## EUROPEAN NEWS

## France likely to push inflation below 8%

BY DAVID MARSH IN PARIS

FRANCE'S ANNUAL inflation rate looks likely to continue to drop to under 8 per cent by the middle of next year, but employment will carry on declining under the impact of sluggish domestic demand, according to forecasts by the Government's statistics institute Insee.

The institute says the economy this year has benefited from an upsurge in international demand. This has prevented the Government's austerity policy causing an outright recession. The economy

is expected to grow by 0.2 per cent on average this year compared with 1982, Insee says in its forecast for the first half of next year. This at least is better than an economic contraction—and improves upon the performance foreseen earlier this year, Insee notes.

Emphasising the lack of stimulus expected from internal policies, Insee warns that industrial production will remain at its current levels in early 1984 only if foreign demand is maintained.

But in an optimistic survey of business opinion published in a separate document, Insee has revised sharply upwards its forecasts for industrial investment in 1984. This is now predicted to grow by 15 per cent in value terms—a rise of well over 5 per cent in volume terms—which would more than compensate for the 4 per cent volume drop between 1983 and 1982.

Insee says the spurt in investment intentions—most marked among large enterprises—partly represents a

postponement until next year of spending plans originally slated to be carried out in 1983. The report says the sharp improvement in France's current account performance—to an estimated deficit of only FFfr 6bn (£333m) in the second half of 1983 from FFfr 34bn in the first six months—is due above all to a big drop in the domestic economic slowdown and more competitive export prices after the franc's devaluation.

The institute expects consumer prices to rise by 3.8 per cent in the first six months of 1984, only slightly down from the 3.9 per cent increase over the second half of this year. This would bring the year-on-year increase to 7.7 per cent by next June.

On the employment front, Insee predicts continued layoffs in the industrial sector, with an overall 200,000 jobs being lost between mid-1983 and mid-1984.

David Housego visits Talbot's strike-bound production lines at Poissy outside Paris  
Car-workers dig in their heels

"UNTIL the management is ready to discuss each redundancy with us on a case by case basis we won't budge from here," says a Moroccan worker. "The strike goes on."

It is mid-afternoon at the large Talbot car plant at Poissy outside Paris. As has so often happened in the past in car disputes in the Paris region, many of the mainly immigrant workers on the production lines have rejected an agreement that has been accepted by their union's national leadership.

Several hundred of the 3,000 workers who showed up this morning at the call of the unions gathered in groups in the assembly shop. Half-made cars hung suspended where they were 12 days ago when the strike began. Draped from the girders were slogans painted red and written out in French and Arabic proclaiming "No Redundancies" and "Peugeot must negotiate."

Union officials believe that letters are already in the post to the 1,905 being made redundant as a result of Saturday's agreement. It is not known on the shop floor if the workers will accept the deal. The Communist-led CGT union which has a large majority at Poissy and at national level acquiesced in Saturday's compromise says that nobody "will

be turned out on to the street." At a minimum, the CGT claims, everyone will be entitled to 60 months retraining.

"The training is a trick," says one North African worker. "I have been here eight years and they have never proposed training before. They have dreamed it up now that they are throwing me out." Another adds "I am not going back to nursery school to learn my ABC." Many of the immigrant workers cannot read or write in French.

A middle-aged Algerian who declines to give his name says he would be ready to leave if he was paid a proper "departure bonus." "We're being treated like worn out brooms. Now they're finished with us they are throwing us out. But we want our rights."

Word goes round the assembly shop that a meeting is about to begin. On the back of a small truck climbs a fragile woman in black sweater and mauve skirt. She is Nora Trehel, the local CGT leader whom the strike and television appearances have propelled to national fame. She declares in on she seems virtually in charge of the assembly shop.

Clutching the microphone and speaking in short clear phrases she blames the national



Placards on Poissy's halted production lines proclaim workers' opposition to redundancies

Press and radio for saying that the CGT has changed its position and has accepted the redundancies.

There were two positive points, she says, in Saturday's accord between the Government and the Peugeot management—1,000 jobs have been saved and the production of Talbot cars is to continue at Poissy. Amid cheers she declares that "arbitrary redundancies will not be accepted." The sole path to a solution she says is through the management agreeing to discuss voluntary departures on a case-by-case basis.

Each worker would then be offered the possibility of retraining, a transfer to another job or "a departure bonus" for those wanting to return to their country of origin.

Soon after she finishes, M Jean-Pierre Noual, the local leader of the pro-socialist CFDT union, climbs up on another truck. "Our opposition is simple," he says. "We reject all redundancies. The workers here don't believe in retraining programmes and they don't want them. They know they

won't find work elsewhere. At the last union elections the CGT gained only 6.9 per cent of the votes. But, over the past three weeks, their strength has been growing because they have taken a much tougher line at plant level than the Communists."

Poissy is officially shut through the Christmas holidays until January 2. Management and Government hope the strikers will lose heart. Other car industry disputes have ended that way and maybe this one will as well.

## Swedish recovery spurred by exports

SWEDEN'S ECONOMIC recovery has developed more quickly than expected thanks to the export boom triggered by last year's 16 per cent devaluation. The current could be in balance next year, in strong contrast to the massive deficit of SKr 25bn (£1.9bn) in 1982 and SKr 7.2bn (£623m) this year, according to the latest economic survey produced by the Swedish Industry Federation.

The report warns, however, that costs must be kept in check if the advantage gained by last year's devaluation is not to be eaten up.

Inflation in Sweden, although lower than feared in the wake of the devaluation, is still running well above levels in most of the country's main trading partners.

The Federation believes that the Government is unlikely to achieve its ambitious goal of lowering inflation to only 5.5 per cent next year—compared to a average of 8.9 per cent for 1983. But it does expect price rises to increase of some 7.1 per cent next year.

Sweden has achieved a 10.5 per cent rise in the volume of exports this year says the report. This is expected to result in a SKr 10.1bn trade surplus for 1983, a massive swing from last year's SKr 5.7bn deficit. The trade surplus is expected to rise further in 1984 to SKr 16.5bn.

The report from one of the leading economic forecasters in Sweden—more cautious about the prospects for the wider economy, given the continuing depressed state of domestic demand. Swedish gross national product is estimated to have risen by 1.7 per cent this year and a further modest increase of 1.4 per cent is expected next year.

Industrial profits have also recovered sharply this year, above all in the export sector of the economy and are expected to continue rising in 1984.

Its available capacity is used up through rising industrial production—output is estimated to have increased 4.9 per cent this year—industry investment is also showing the almost continuous decline since the mid-1970s. Investment could rise by 6.4 per cent next year, says the report.

## IEA urges oil refining capacity cut

By Richard Johns

ABOUT one-third of West European oil refining capacity will have to be closed by 1985-86 if an 85 per cent utilisation rate is to be achieved, according to officials of the International Energy Agency (IEA).

The present utilisation in West Europe is 60 per cent compared with 65 per cent in the Pacific region and 75 per cent in North America.

Throughout in the Pacific region should rise to 75 per cent capacity as a result of closures involving 1m b/d in Japan. The proportion in North America could rise from 75 per cent to around 90 per cent taking into account forecast increases in demand for products.

Crude oil distillation capacity in the Organisation of Economic Co-operation and Development area fell from about 47m barrels a day in 1978 to just over 41m b/d at the end of 1982, according to a recently completed IEA study. It is expected to fall to 39m b/d by the end of 1985.

Over the next two years Opec is expected by the IEA to increase its exports of refined products from about 1.2m b/d to 2m b/d.

## Ozal presents plan for liberalisation of Turkey's economy

BY DAVID BARCHARD IN ANKARA

MR TURGUT OZAL, Turkey's Prime Minister, has presented his Government's programme to the National Assembly. It stresses, as expected, the need to develop competitive free market economic conditions and streamline the country's civil service.

The programme will be debated in the 400-member parliament before being put to a vote of confidence on Saturday. Mr Ozal has a working majority of 23 and is not expected to face any difficulty in getting the programme approved.

The Government programme follows last week's major overhaul of the administrative system, which cut down the number of departmental ministries, and drastically pruned the power of the Ministry of Finance.

It stresses the need to find economic policies to solve Turkey's chronic social and economic ills. The approach promised by Mr Ozal during his election campaign.

Law and order, unemployment, housing shortages, regional poverty, administrative reform, and tackling inflation are listed as the main targets.

Mr Ozal told parliament that Turkey had set up a dynamic new system whose rules and structure would work efficiently. He promised strict controls over the growth of the money supply and reduction of the budget deficit.

There are to be new incentives for exporters and further encouragement for foreign investment. As expected, Mr Ozal also promised to ease restrictions on imports, though only gradually.

The Prime Minister told parliament that he also plans to achieve

full convertibility for the Turkish lira during the five-year life of the present assembly. Restrictions on foreign exchange transactions and travel abroad will be phased out gradually.

Mr Ozal said the report declaration of independence by the Turkish Cypriots did not allow the way to successful negotiations. Mr Ozal's Government yesterday also unveiled a drastic effectively abolishing the interest rate regime set up a year ago by the former Finance Minister, Mr Adnan Baser Kalkan.

Rates for term money have been increased and those for sight deposits—put up to 20 per cent a year ago by Mr Kalkan—have been taken back down to 5 per cent.

Deposits of less than one year will now earn 7 per cent compared to 35 per cent and one-year deposits will rise from 40 per cent to 52 per cent.

The European Community appears ready for the time being to continue accepting imports on a preferential basis from the Turkish part of Cyprus, despite the "illegal" declaration there of an independent Republic, writes John Wyles in Brussels.

EEC Foreign Ministers acknowledged yesterday that the officially recognised government of Cyprus was changing its official stamp on export documents and that this would now be recognised on imports from the island.

However, they took no decision as to whether this would be recognised as the only official export authorisation. This leaves member states free to accept imports from the Turkish sector as they have done on an informal basis since the island was partitioned in 1974.

## Schlüter well-placed to win snap election

BY HILARY BARNES IN COPENHAGEN

WHEN Denmark goes to the polls on January 10, Mr Poul Schlüter's outgoing centre-right coalition will be in an ideal position to apply for re-election.

Mr Schlüter's four-party coalition was toppled at the end of last week after its 1984 Finance Bill was voted down by an alliance of the anti-tax Progress Party and the Social Democrats, the first calling for bigger budget cuts and the second for increased public expenditure.

The Conservative Party Premier is now preparing to flay the Social Democrats—who have dominated Danish politics for half a century—for their opportunism: they had not voted against a Finance Bill since 1928.

The Conservatives will also be seeking to hammer the right-wing Progress Party, the Social Democrats' unlikely ally, for its part in bringing down the first non-socialist government in Denmark for 60 years.

The first opinion polls, published at the end of last week, point to a triumph for Mr Schlüter. The poll indicated that the Conservative Party would double its vote to 29.7 per cent, putting it level for the first time in 50 years with the Social Democrats, who stand to drop from 32.9 per cent in the 1981 election to 29.9 per cent.

Mr Schlüter's administration has had considerable success in bringing the country's economic problems under control and the voters seem prepared to reward it, especially the popular Prime Minister's Conservative Party.

By reducing a forecast 1983 budget deficit from Dkr 80m (£7.9bn)—almost 14 per cent of gross domestic product—to an actual Dkr 62m; and by suspending the indexation of all wages and salaries and some social welfare benefits, the Government has reduced inflation from 10 to 8 per cent.

It has halved the current account deficit from Dkr 15m to Dkr 5m, stabilised the krona exchange rate

and seen interest rates in the bond market dive from almost 22 per cent a year ago to around 13.5 per cent.

To the discomfort of the Social Democrats, the Government's tough fiscal line, which has left its mark in the form of an increase in unemployment from about 9.5 per cent of the workforce to 10.5 per cent between 1982 and 1983, has not paved the way for their return to the government role.

The Social Democrats' own alternative to present government policies does not seem to be cutting much ice with the electorate. This is to increase budget spending with an eye to providing more jobs and to finance the increase by raising corporate income tax from 40 per cent to 50 per cent.

The opinion polls indicate that the coalition parties will advance 35 seats to around 75, but that the Conservatives will gain at the expense of almost everyone else, including Mr Schlüter's Liberal, Centre Democratic and Christian Party colleagues.

The Social Democrats and the Progress Party both seem set to lose seats.

In the present nine-party Folketing there is no majority for either left or right. The balance between the two blocks is held, as it has been for decades, by the social-liberal Radical Party.

The Radicals have supported the Government on economic policy, but caused it problems by voting with the Socialists on foreign policy.

A good election for the coalition could end this dilemma by giving the Government enough seats to continue to base its economic policy support on the Radicals and its foreign policy on the Progress Party.

One of the mysteries of last week's vote is why the Social Democrats provoked an election which they apparently have little chance of winning.

## Kidnappings take violent turn in Italy

By James Buxton in Rome

A HUMAN ear delivered in a plastic bag, a horrifying photograph found in a refuse bin showing a man with a lacerated face and an ear evidently missing, alongside a woman in chains with the barrel of a revolver against her temple. Italy last weekend seemed to be back in the worst of the era of kidnapping that reached its peak in the 1970s.

When Anna Calisani and her son Giorgio were kidnapped in November at their home outside Rome it seemed to be just another of the 50 or 60 kidnappings of the rich which have been taking place in Italy every year for the past 10 years. They are cousins of the Bulgari family, owners of Italy's equivalent of Cartiers the jewellers, the head of which, Gianni Bulgari, was himself kidnapped in 1975 and released after payment of a ransom.

But the mutilation of Giorgio, in evident frustration by the kidnappers at the non-payment of the ransom demanded, said to be £1.25m (£1.25m), introduces an element of brutality rarely seen since the kidnapping in Italy in 1973 of Paul Getty 3rd, grandson of the immensely rich oilman, and the only other victim to lose an ear.

It also raises the issue of whether, as in this case, the magistrate was right to order sequestration of the family's property to prevent it paying a ransom.

Sig Fermo Mino Martinazzoli, the Minister of Justice said yesterday that it was quite understandable that families would seek a way round sequestration. What the authorities ought to be doing was tracking down the money afterwards. Nearly three-quarters of kidnapping cases ended up with convictions.

There has been a rising public concern about kidnapping, which came to a head in the autumn when an 18-month-old girl was kidnapped in Tuscany, and released unharmed by police 40 days later in Sicily.

For many wealthy Italians the threat of kidnapping has long been a part of life. They organise guards and travel in bullet-proof cars.

The hands of kidnappers have concentrated lately on particular areas such as the Veneto, which is full of successful young entrepreneurs. A leading Italian sociologist observed recently that Italy's nouveau riches fear the tax man more than the kidnapper: "With the kidnapper you don't see him so as to be able to identify him, you come to no harm. With the tax man you do not know where you stand."

The kidnappers are mostly Calabrians or Sardinians, affiliated in one way or another with the Mafia, whose tentacles extend throughout Italy. Recent

## Carrillo's successor shows staying-power

BY DAVID WHITE IN MADRID

"GERARDO IGLESIAS may have surprised in store," said Sr Santiago Carrillo, the old fox of Spanish Communism, when he handed over a defeated party, one year ago, to an unknown and unassuming co-leader.

It was an unintended prophecy. The one quality Sr Carrillo was not looking for in his successor was staying power. But at the weekend, at the end of the most openly quarrelsome congress in the party's history, Sr Iglesias proved he had it.

The results of elections, which gave Sr Iglesias (38) the backing of two-thirds of the central committee, are misleading, reflecting the way the party apparatus works more than the true balance of power. But they show that Sr Iglesias, even if he lacks the sharp intellect and personality of Sr Carrillo, can match him in wit and nerve.

Until the last minute, his prospects of re-election hung by a thread. He survived a vote on the outgoing central committee's report by only the narrowest of margins and his speech in defence of his policy

## PORTUGUESE CLEAVE TO MOSCOW

THE PORTUGUESE Communist Party has reaffirmed its allegiance to Moscow, and its resolve to carry on the 1975 revolution, writes Diana Smith in Lisbon. At its tenth congress, in Oporto at the weekend, the party insisted that although the revolution was "wounded" it would continue, and that recent governments were counter-revolutionary.

Sr Álvaro Cunhal, the 70-year-old leader, was re-elected secretary of the central committee. He held his party to a rigid pro-Moscow line throughout West Europe's Eurocommunist experiments of the 1970s and has been a fierce critic of Portuguese governments since 1976 that have tried to dismantle the overmanned, deeply-indebted public sector created by Communist-led nationalisations in 1975.

The presence at the Congress of Mr Mikhail Gorbachev, a prominent member of the Soviet politburo and one of the candidates tipped to succeed President Yuri Andropov, was a sign of the approval with which Moscow regards the Portuguese party.

sentiment stirred up by the Reagan Administration's policies in Central America and the Caribbean. In Sr Iglesias's view, his predecessor committed the error of thinking he could continue to pull the party strings. He has reaffirmed his aim of hauling the party out of its ghetto and appealing to the supporters who left it in recent years. But he faces an awesome task.

The veteran union leader, Sr Marcelino Camacho made clear that party policy would be "a collective operation" between Sr Iglesias and the others. The remaining posts on the executive which will probably be decided this week will reveal the extent of the constraints on the secretary-general.

The argument has been about the style of Spanish Eurocommunism, but behind the power struggle lies the problem of a faction that rejects Eurocommunism altogether. Sr Carrillo's supporters have argued that the party risks losing militants to a pro-Soviet splinter organisation being set up by Sr Ignacio Gallego by a former central committee member.

former made a mistake when he chose the latter. Sr Carrillo's version is that Sr Iglesias proved not to be the transitional leader he hoped for. The Carrillo camp want more cohesive disciplined party with a strong sense of separate identity, but dissociated from the ruling Socialists and taking fuller advantage of anti-U.S.

proceed with the installation of new U.S. missiles. At a meeting with Herr Genscher in September at the United Nations, he spoke of the need to overcome the dangerous absence of a dialogue between the superpowers.

West Germany has good relations with Hungary and the slides are expected to discuss the planned visit to Budapest by Chancellor Helmut Kohl in the

spring. Mrs Margaret Thatcher, the British Prime Minister, is also scheduled to visit Hungary next year.

West Germany is Hungary's leading Western trade partner, exporting Dm 2.6bn to Hungary last year and importing Dm 1.8bn. Exports this year are expected to fall to Dm 2.3bn because of Budapest's payments problems, while imports remain the same.

## West Berlin urban rail accord

By Our Berlin Correspondent

EAST GERMANY and West Berlin have reached surprisingly quick agreement on one contentious post-war problem in divided Berlin. The West Berlin half of the S-Bahn, the urban elevated railway, is no longer to be operated by the German Democratic Republic but by West Berlin itself.

The four second World War allies in 1945 made the Reichsbahn legally responsible for operating the urban railway in all of Berlin, a status which remains untouched by the accord.

The Western allies call the agreement, which is to be initiated shortly, a sign of the East's apparent willingness to compromise and to continue the process of détente.

East Germany, which said it pumped Dm 1.5bn (£380m) in subsidies into the loss-making S-Bahn, wanted payment from the city for the transfer. But it quickly abandoned this negotiating tactic when West Berlin said it had no money for the purpose.

Instead, East Germany will receive an annual payment for the long-distance trains it operates through West Berlin. The main benefit for East Germany is that it will no longer have to subsidise the S-Bahn in the West which it has largely shut down for this reason.

West Berlin intends to revive the S-Bahn, which it regards as a symbol of Berlin's unity, at a cost of Dm 1bn from the Bonn Government.

## Hungarian minister visits Bonn

BY OUR BERLIN CORRESPONDENT

HUNGARY'S Foreign Minister, Mr Peter Varkonyi, begins an official visit to Bonn today for talks with Herr Hans Dietrich Genscher, his West German counterpart, on ways the Europeans might help overcome the political impasse between Washington and Moscow.

Mr Varkonyi is the first East European foreign minister to visit West Germany since the Bundestag's vote last month to

proceed with the installation of new U.S. missiles. At a meeting with Herr Genscher in September at the United Nations, he spoke of the need to overcome the dangerous absence of a dialogue between the superpowers.

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designed and badly made. The most basic tape deck costs five weeks' average wages and two months' wages are needed to buy an oversized East German chess computer game whose much smaller Far Eastern counterpart in West Berlin costs Dm 50.

A small washing machine made in East Germany sells for 2,750 marks at the Centrum; abroad, sold under another label in the West, the same machine costs less than one fifth.

A new car requires patience as well as money. In the south western part of East Germany, the tiny two-cylinder Trabant—Eastern Europe's Volkswagen—is now being delivered to customers only after a long wait. Waiting lists for the 20,000 mark East German-made Wartburg, also powered by a two-cylinder engine, are even longer because difficulties in importing Soviet Lada cars reduce the

overall number of vehicles on the market. These difficulties stem from East Germany's growing trade deficit with the Soviet Union.

If an East German is fortunate enough to have a generous relative in the West who buys him a Wartburg (only Dm 9,400), he will get immediate delivery. East Germans hardly notice a large sign over the entrance to the car repair centre in Schoenhäuser Allee saying: "Everything for the good of the people and for peace."

Balancing the high cost of consumer goods are the heavily subsidised prices East Germans pay for rent (90 marks a month for a three roomed flat, compared with an equivalent of around Dm 450 in the West), public transport fares and other essentials. Sixteen per cent of the East German budget next year will be devoted to artificially maintaining these

prices, an article of faith to the East German leadership.

Most East Germans take the subsidised basics for granted, however, while grumbling over high prices for nearly everything else. They believe that the least the Government can do is provide cheap housing and other essentials if it cannot pay higher wages and provide lower-priced, well-made consumer goods.

East German pensioners, understandably, are the most satisfied with the present system, but the majority of East German families, who have two incomes, would opt for cheaper cars and more of them.

The problem is exacerbated by the wealth of consumer goods shown each night in East German homes on West German television, which has a daily average paid at New York NY and at additional mailing offices. POST-STRONG advertisement changes. FINANCIAL TIMES 75 Rockefeller Plaza, NY, NY 10019.

East Germans have always complained that the country's best consumer goods are exported to the West. But now

the East German leadership is calling on the population to raise industrial productivity next year by a steep 7.3 per cent while personal income is expected to rise by only 2.3 per cent.

Just how the Government intends to obtain such an improved performance from a workforce which is being overworked is unclear. It is doubtful that continued stable prices for basic goods and services will be enough to satisfy East Germans for much longer.

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## OVERSEAS NEWS

## ISRAELIS STRIKE AT TRIPOLI



Cargo vessel "My Charm" ablaze in Tripoli

## Arafat's evacuation hopes suffer setback

BY PATRICK COCKBURN IN TRIPOLI

THE TRIPOLI fire brigade was directing a thin jet of water at the blazing stern of a small cargo vessel called "My Charm" moored at the quayside in Tripoli early yesterday. The old name, "Derola," was painted on it.

A few hours earlier, four Israeli gunboats which heavily shelled the port, sinking the burnt-out hulk of one ship and setting "My Charm" ablaze. The little ship had appeared overnight, presumably to pick up heavy weapons belonging to Mr Yasser Arafat, the leader of the Palestinian Liberation Organisation, whose departure was postponed yesterday because of the shelling.

The attack was more serious than previous pickings by the Israeli gunboats which, however, the coast. On five previous occasions they had contented themselves with harassing fire aimed in the general direction of the PLO.

It remains uncertain whether the Israelis are prepared to see the evacuation of Mr Arafat and his 4,000 men take place. At the ceasefire headquarters, Major Zein, who commands the paramilitary police in Tripoli, said he thought that the Israeli attack was aimed primarily at preventing the rescue of Mr Arafat's heavy weapons.

These are less impressive than they sound. A few old Soviet T-54 and T-55 tanks guard the earth embankments which protect Tripoli from attack by PLO rockets to the north, but these have long ago run out of ammunition, say PLO leaders.

There are, in addition, some light anti-aircraft guns which can also be used in a ground-support role, multiple rocket launchers on trucks and heavy mortars. It is not an impressive arsenal and similar weapons could be secured again by Mr Arafat.

It was, therefore, little sacrifice for Mr Arafat, grinning more broadly than ever, to announce in his headquarters early yesterday that he had decided to hand over these weapons to the Lebanese army.

As his bodyguards fought to hold back a crush of reporters and television crews he added that he had asked the Greeks to delay the arrival of their ships, because of the Israeli attack.

There is no doubt that Mr Arafat and his senior aides want to get out. They feel they have won all the political tricks they can from the PLO rebels and the Syrians and do not want to become trapped by a renewed rebel offensive with the Greek Government said yesterday that it was asking for renewed guarantees of safe passage from "all interested parties" to facilitate the evacuation of Mr Yasser Arafat, AP reports from Athens.

sea and Israeli gunboats behind them.

In some of the front line positions, members of the Lebanese gendarmerie are already deployed. Major Zein, whose slightly melancholy figure was to be found until recently in almost deserted police headquarters building, says he has stationed 500 men in Tripoli and on the road to the port to safeguard Mr Arafat's departure.

When the five Greek ships, still at anchor at Larne, yesterday—10 hours sailing time away—arrive in Tripoli, Mr Arafat's men will gather in five places. Lebanese army lorries will pick them up and carry them to the port.

A Lebanese militiaman who was going home after fighting alongside the PLO said that he expected they would leave quickly. Once they drew back from their positions they become vulnerable to attack and will want to get out as fast as they can.

Several smaller opposition parties will attend tomorrow's talks.

President Jayewardene rejected an opposition request to invite the Peoples Liberation Front (PLF) and the Trotskyist NSRP. Accused of involvement in the July riots, these two parties are banned, and their leaders in hiding.

The Tamil Federal Party, a constituent member of the Tulu party, declined government invitations after it consulted the Tulu leaders, now in Madras.

Tomorrow's meeting will not take up any substantive issues like regional autonomy, land settlement, education, jobs, language and the powers of the proposed regional councils, all issues to be negotiated with the Tulu party.

These questions emerged in talks in New Delhi between Mr Jayewardene and Mrs Indira Gandhi, and in Colombo with Mrs Gandhi's special envoy, Mr G. Parathasarathi.

It is already clear that the two most sensitive issues are the right of proposed regional councils to amalgamate and the powers that these councils should have. Last week, six Buddhist prelates warned the government not to concede the right of amalgamation and to vest only limited powers in the councils.

## Pakistan's economic recovery 'at risk'

By Mohammed Afzal in Islamabad

PAKISTAN'S spiralling inflation rate and a woefully low level of savings is threatening the country's fragile economic recovery, according to the country's central bank.

Lower imports and increased exports have helped President Zia-ul-Haq's regime to trim its chronic current account deficit.

Pakistan's industrial sector has been struggling to stay afloat in the face of—until very recently—continued political unrest which has seriously affected production in the Sindh province. The State Bank urges "a stepped up effort to improve export competitiveness."

The authoritative review of the economy in fiscal 1983-84 (year-ended June 30 1983) by the Central Bank also emphasised yesterday that effective steps are needed to ensure a wider income distribution.

Despite its declining authority, as a result of constant interference from the Finance Ministry, the bank's views are still considered fairly independent, though some of its data collection tools are as faulty as those used by the government itself.

The Government of President Zia has maintained that it has brought the inflation rate down to a single digit since it imposed martial law and seized power in July 1977, from a 15 to 20 per cent annual average during the period of the late President Zulfikar Ali Bhutto's rule in 1971-77.

Independent economists, however, challenge the government's inflation rate figures, and maintain that it has by now bounced back to a more alarming level of 20 to 25 per cent a year.

The low inflation rate claimed by the government is based on incomplete cost of living indices, and a consumer basket which dates back virtually to the Raj.

The State Bank advocates "a relentless effort to step up domestic savings which are critically important in the present international aid environment resulting in low availability of all types of funds."

Commenting on a 5.8 per cent annual growth of GDP at constant factor cost, up from 5.6 per cent in 1981-82, the report urges "a meaningful and equitable distribution of income, and a reduction in the poverty level."

Pakistan's per capita income in constant prices (of 1959-60 equals 100) has remained in the Rs 650 to Rs 700 range for the last four years, while it moved from its Rs 2,482 to Rs 3,500 over that period.

On the plus side, the bank notes a "significant" increase in private investment, but added that the rate of gross investment has slowed as a result of sluggishness in the rate of the state sector investment.

Exports rose by 13.3 per cent to \$2.85bn, while imports declined by 4.1 per cent to \$5.53bn. The trade gap, as a result, shrank to \$2.91bn, from \$3.45bn a year earlier.

The current account balance of payments recorded a deficit of \$455m—a considerable improvement from a \$1.1bn deficit in 1981-82. When the long-term capital account (net) is considered the net basic balance indicated a \$430m surplus in 1982-83.

The gold and foreign exchange reserves increased from \$1.5bn on June 30 1982 to \$2.8bn a year later.

Delays in debt talks may fuel tensions, writes Chris Sherwell  
Manila prepares for big bailout

NEGOTIATIONS on a multi-billion dollar rescue package to bail the Philippines out of its \$25bn debt crisis are poised at a delicate stage. Although final pieces of the jigsaw are now being moved into position, several details remain to be settled.

The delay that this entails—it was originally hoped that a deal would be in place by mid-December—is increasing concern among bankers, businessmen and diplomats about a fresh burst of political tensions as workers are put on to shorter working weeks or laid off altogether because of the halt in imports.

The crisis was precipitated by a huge outflow of so-called "flight" capital in the weeks following the assassination of the popular opposition leader Benigno Aquino in August.

But it is now generally agreed that the onsets of trouble on the debt front were clearly visible months earlier, as Philippine government agencies and banks borrowed increasing amounts of short-term debt to meet their foreign obligations.

Western bankers acknowledge that the signs were missed, and express surprise that the Government did not call a moratorium on principal repayments of its escalating commercial debt much sooner than October 17. More significantly, the Government has now confirmed the seriousness of the present crisis: the Philippines has also failed to pay interest on the commercial debts since October, despite its promise to do so.

Negotiations since the announcement of the moratorium have been conducted on three fronts: with the International Monetary Fund, with a 12-bank advisory committee representing some 350 commercial bank creditors, and with governments and multilateral lenders such as the World Bank and the Asian Development Bank.

The fond hope is that a repeat of the Brazilian experience can be avoided, and that in a single operation the problems of the Philippines economy can be confronted without the risk of an unexpected default.

Inevitably, several key participants are withholding final agreement until the terms of an IMF package are in place. In turn, the Fund's work is being complicated by apparent deficiencies in the statistics it has to work on (an IMF team is now in Manila gathering more data and assessing whether its proposed economic targets are realistic).

Manila admitted to an external debt of \$18bn until just a few weeks ago. Then it confirmed that the figure was \$24.8bn, and last Friday Mr Cesar Virata, the Prime Minister, acknowledged that there were additional foreign obligations which did not count as debt but which amounted to some \$1.5bn.

Some Western bankers in Manila believe that Mr Virata's closest government ally in the debt negotiations, Mr Jaime Laya, the Central Bank governor, has found his credibility impaired by the confusion over figures.

At one point in the past three months, the Central Bank is believed to have been forced to adjust its reserve figures by \$500m because of a fault in the way they were being recorded.

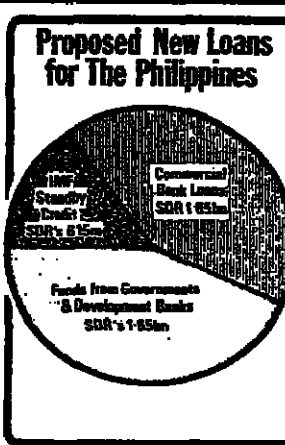
Nevertheless, once the IMF plan is submitted to the Fund's Executive Board, the other elements of the bail out will be finalised. All this is now scheduled to occur in January.

As matters stand, the IMF will provide a standby credit of SDR 615m (\$499m), and in return the Government will impose a conventional IMF austerity programme.

This is expected to incorporate controls on the size of the budget deficit and curbs on domestic credit, but probably not a further devaluation of the peso, whose exchange rate has fallen from 8.4 to the dollar in the middle of last year to 14 at present and close to 20 on the black market.

Agreement on the IMF money will permit commercial banks to put the finishing touches to their own package. This comprises new money worth \$1.65bn, a rescheduling of existing medium and long-term debt amounting to \$2bn and a rollover of revolving credits worth more than \$3bn.

Two Philippines opposition groups called yesterday for a national boycott of the May 1984 parliamentary elections saying they were a trick to strengthen President Ferdinand Marcos' rule. AP reports from Manila, The Nationalist Alliance, headed by former Sri Lankan Prime Minister, and the movement for Philippine Sovereignty and Democracy—locally called KKKay—led by Jose Diokno claimed in separate statements that the elections were also designed to preserve U.S. interests in the Philippines.



Manila has also said it is seeking \$1.65bn in fresh funds from other governments and the development banks. A \$83m tranche of a World Bank structural adjustment loan was released recently, and up to \$200m will be available in 1984 to finance raw material imports.

A sum of up to \$150m from the World Bank and up to \$130m from the Asian Development Bank has also been earmarked for the import of agricultural inputs such as fertiliser, and both agencies are apparently ready to advance money for development projects amounting to more than \$30m.

It is understood that these two agencies are including some politically sensitive conditions.

In addition, the Manila government hopes to receive more than \$1bn through direct bilateral help, principally from the U.S. and Japan. A meeting of the Paris club of industrial country donors is likely in February.

The Philippines would like a rescheduling of some of its repayments on loans from the U.S. Agency for International Development (AID) and Japan's Overseas Economic Cooperation Fund.

Several U.S. agencies, including AID, the Commodity Credit Corporation, Ex-Im Bank and the Economic Support Fund, have advanced or promised a total of \$370m for a variety of purposes.

Japan has been asked to convert \$250m earmarked for 12 projects into straight balance of payments support. This is still under discussion, but reports from Tokyo suggest the response will be positive.

Japan's Ex-Im Bank is also likely to furnish up to \$200m worth of credits.

President Marcos has yet to prepare the country's 52m people for the tough austerity programme which he will have to implement in return for this financial support.

## Shake-up plan for Australia's top jobs

By Colin Chapman in Canberra

A SHAKE-UP of the Australian public service, giving MPs greater control over appointments, is proposed by the federal government in a White Paper, which was published yesterday.

Departmental heads would be appointed by the Governor-General on the recommendation of the Prime Minister, and only have a tenure of five years. After that, they would be shifted or retired, although some terms of office could be extended.

The top strata of the career public service, known as the Second Division, would be abolished in favour of a Special Executive Service, where all jobs would be open to outside competition.

This move is designed to encourage more interchange between business, commerce and industry and the Canberra bureaucracy.

The appeals system for senior jobs, under which all promotions are only provisional until completion of a lengthy review by a committee, would be abolished. At present even those who did not apply for an advertised vacancy have the right of appeal.

Ministers will be able to hire more outside consultants, and both they and MPs will be able to choose their own staffs.

**Secret service chief resigns**  
MR JOHN RYAN, director of the Australian Secret Intelligence Service (ASIS) resigned yesterday, writes Michael Thompson-Noel in Sydney.

His resignation follows a bungled mock-terrorist raid on Melbourne's Sheraton Hotel by 12 armed ASIS agents earlier this month.

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**NATIONAL SAVINGS—ORDINARY ACCOUNT**

## Sri Lanka move to defuse tension

BY MERVYN DE SILVA IN COLOMBO

PRESIDENT Junius Jayewardene of Sri Lanka tomorrow launches his first big political effort to contain the country's racial tensions and to negotiate a settlement with the separatist Tamil United Liberation Front (TULF) on the vexed issue of minority Tamil demands for regional autonomy.

Tomorrow's eight-party conference comes five months after the ugly outbreak of anti-Tamil violence that cost about 400 lives. The state insurance corporation said yesterday that it has received compensation demands from Tamil factory owners and shopkeepers exceeding Rs1.4bn (\$55m).

Mrs Bandaranaike, the former Prime Minister, who returned home on Saturday after medical treatment in Yugoslavia, will not attend the talks, but her Freedom Party (SLFP) will participate.

"Without civic rights, I am a second-class citizen and hardly competent to discuss important national issues," she said yesterday.

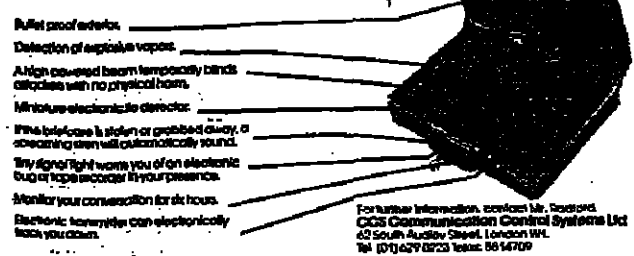
Her party, however, will support President Jayewardene's idea of inviting the Tulu party for an all-party conference after Christmas. The question of Tulu participation at the next conference is the main topic of tomorrow's talks, which will also decide on a formal agenda for the second round.

Several smaller opposition parties will attend tomorrow's talks.

President Jayewardene rejected an opposition request to invite the Peoples Liberation Front (PLF) and the Trotskyist NSRP. Accused of involvement in the July riots, these two parties are banned, and their leaders in hiding.

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## WORLD TRADE NEWS

## Paris likely to urge cross-Channel optical fibre link

By DAVID MARSH IN PARIS

FRANCE SEEMS likely to put forward for discussion with the British Government in coming months an ambitious plan for an optical fibre communication link between London and Paris.

The plan, revealed by Paris officials close to M. Laurent Fabius, the Industry Minister, has a high symbolic value and would also represent a significant chance for British and French companies to collaborate on bidding jointly for submarine cable contracts.

The project is the latest in a series of ideas being pushed vigorously by the French Government for stronger communications and energy links between Britain and France. Apart from work going on now for a two-way electricity cable to swap off-peak power between Electricite de France and the Central Electricity Generating Board, discussions have also been taking place on the idea of a cross-Channel gas pipeline.

French officials would like a London-Paris optical fibre cable to precede the laying down of extensive cable TV networks in Britain and France in order to establish a central axis for the

two countries' individual systems.

They say the link could be used for purposes such as transmission of business documents, exchange of TV programmes and — a symbolic if not evidently profitable notion — video-phone communications between Mrs Margaret Thatcher and President Francois Mitterrand.

British officials however, take a more prosaic view of the uses of a London-Paris link. They say the idea would probably be worth exploring only when the commercial need — for extra telephone and data links between the two capitals — arises. "It's a nice idea at the symbolic and presentation level," said one official. "But someone's got to pay for it. It's not very likely in the short run."

The British Government is also likely to point out that an optical fibre link could partly duplicate TV and telephone transmission links being served already by the family of European satellites being put into orbit by the European space telecommunications organisation Eutelsat.

## EEC to bring forward planned tariff cuts

By PAUL CHEESBRIGHT IN BRUSSELS

THE EEC yesterday made a gesture towards checking the spread of protectionism by agreeing, under certain conditions, to accelerate a series of planned tariff cuts.

Foreign ministers of the Ten, meeting in Brussels, also undertook to remove quantitative import restrictions on imports from the poorest countries.

The tariff cuts were agreed during the 1970s round of multi-lateral trade negotiations. At that time the industrialised nations said they would reduce industrial tariffs in eight stages from 1980 to 1987.

The EEC, however, made its cuts from 1985 onwards conditional on the state of its economic health. Ministers have now refined this condition.

They expect economic growth to move up to 2 per cent a year and if this trend is confirmed

next autumn, they will make the 1985 and 1986 tariff cuts together at the beginning of 1985. But the EEC will not act unilaterally. It will accelerate the tariff cuts provided other nations in the Organisation for Economic Co-operation and Development do the same thing. Japan in fact is already one annual stage in advance.

The impact on international trading patterns of the speeded tariff cuts will not be very marked. Industrial tariffs are already at a low level and the major constraints to trade have been non-tariff barriers.

But the EEC attaches importance to speeding up the Tokyo Round cuts because that would be a signal of the general desire to roll back protectionism, as the leading economic nations agreed at their Williamsburg summit earlier this year.

## Computer deals race in India nears end

By John Elliott in New Delhi

Control Data Corporation of the U.S. and Bull of France have been shortlisted by the Indian Government for a computer development project worth up to \$50m which is intended to provide the country with most of its large and medium sized main frame machines in the next few years.

At present Control Data is thought to be ahead in the race, but negotiations are continuing with the Indian Government trying to insist on tough terms.

The contract is being placed at a time when the Indian computer and general electronics industries are being opened up to international technical collaboration for the first time.

The market is expanding rapidly. Sales of mini and micro computers have doubled for the past two years. Some 1,500 units were imported this year and further 1,000 made in India. When the main frame project is under way, the Department of Electronics in New Delhi expects that about 30 per cent of the \$600,000 cost of each computer will initially be imported.

It is planned that about 100 computers will be produced within two or three years by the foreign collaborators, in partnership with a new Indian public sector corporation linked loosely with the existing Electronics Corporation of India.

The Government will probably discourage imports of similar computers when production has started. At present about 30 to 50 main frame computers are licensed for import every year but the potential market is much larger because most work already computerised in developed countries is done by hand in India.

An order for Control Data would give the U.S. entry into the computer market following the acrimonious withdrawal of IBM from the country in 1977-78. The Indian Government wanted IBM to dilute its ownership of its Indian company.

Andrew Fisher reports on the sharp decline of ship orders

## EEC prepares defence of shipyards

EEC OFFICIALS, alarmed at the said state of the European shipbuilding industry, are looking hard at ways of directing future government aids to boost productivity and prevent yards from being totally swamped by cheaper Far Eastern competition.

The industries of member states have cut capacity and jobs sharply in recent years. But this year has proved disastrous for most EEC yards, with Japan and South Korea picking up most new business.

In the early months of 1984, therefore, several ideas which have emerged during talks between Brussels officials, governments and the industry should be refined and made ready for action.

These include linking financial support to investment in new computer, laser welding, and other techniques, expanding joint research and development programmes, and creating favourable credits available for any EEC shipowners to place orders in any EEC yard. Further capacity reductions would also be required.

EEC shipbuilding industries had never had less than 17 per cent of the world order book until 1983. But figures for the first nine months show they pulled in only 9.8 per cent of new orders compared with

51.5 per cent for Japan and 16.1 per cent for the fast-growing Korean yards.

The order book has actually grown slightly this year, due largely to a massive order placed by the loss-making Sanko Steamship at Japanese yards. The European industry, and many shipowners, are highly critical of this order.

But most of the ire of EEC officials and shipbuilding managers is now directed at Korea, where prices are much lower even than those of Japan and which has been expanding its industry during a time of deep crisis.

Persistent

The crisis in the shipbuilding industry has deepened with no sign of improvement over the next two years, said a special report by the EEC Commission in September. It referred to "the persistent and indeed growing over-capacity in the sea transport sector."

Any general economic recovery — shipowners have recently reported an uplift in trade on some routes — would take time to reduce the capacity surplus and cannot be expected to put an end to the problems from

which the shipbuilding industry is suffering.

The heavy losses suffered by nationalised British Shipbuilders, which expects a trading deficit of £120m in the financial year to March 31, 1984, show the severity of the problems in the EEC industry. West German yards are also in trouble.

In Tokyo this month, EEC officials pressed the Japanese on the size of their market share and also asked if they intended to try and persuade the Koreans to moderate their drive for business.

The exchanges occurred at a meeting of the Organisation for Economic Co-operation and Development's working party on the industry. Since Korea is not an OECD member, there is no direct way of putting pressure on it.

EEC officials who were at the talks later said the Japanese were uncompromising and did not respond to suggestions that they should try to persuade Korea to help push up world prices for new ships, which have fallen some 30 per cent in the last two years.

Prompted by the dire state of merchant shipbuilding in the EEC and the poor prospects for jobs, the European Parliament last month passed a resolution urging the EEC Commission to take action.

Last week, this was followed

with a telegram to M. Gaston Thorn, president of the EEC Commission, from the Socialist Euro MPs, asking for shipbuilding to be declared in "a state of manifest crisis." One of this 125-member group, Joyce Quist of South Tyrol and Wear, a major UK shipbuilding area, said action needed to be fast.

Agreement on new productivity methods would not close the huge cost gap with the Far East.

Sceptically

"The trouble is," she added, "the wheels grind so slowly." Not all Brussels officials concerned with shipbuilding hold the same views about what should be done, though they generally agree about the need to act.

The home credit scheme for example is regarded sceptically by some. It agreed, it would enable contracts to be financed in any EEC yards by EEC owners at terms better than those agreed by OECD members for export orders, which allow 8 per cent interest for a loan of 80 per cent of the vessel's cost repayable over 84 years.

The aim of such a scheme would be to treat the whole of the EEC as a home market for shipowners in member states. But details of how it might be operated have still to be worked out. This year,

## Fish sales lead boost in Norway exports

By Fay Gjester in Oslo

BOOMING Norwegian sales of fish products to foreign markets — particularly the U.S. — are helping to push Norway's traditional exports to record levels this year. There has also been a steep rise in sales of aluminium and magnesium.

In the first 11 months of 1983, exports of goods other than oil, gas and ships were worth Nkr 53.9bn (Nkr 4.75 higher than in the same period last year. At constant prices, this represents a rise of about 10 per cent.

Sales of fresh and bulk frozen fish and shellfish from March to October totalled 73,000 tonnes worth Nkr 1.6bn, about twice as much as in the same period last year. Increased U.S. purchases of shrimps, trout and salmon were responsible for much of the rise.

## Canada, Japan back credits for Jamaica

By Charles James in Kingston

TWO state-owned utility companies in Jamaica have received "credits" totalling \$53.8m to allow them to purchase equipment from companies in Japan and Canada.

The Overseas Economic Co-operation Fund of Japan is backing \$40m in credits for the Jamaica Public Service Company. The island's sole electricity producer, for purchasing two slow speed diesel generators of 20 Mw each. The Jamaican company will also be purchasing \$13m worth of assorted equipment from the Montreal Engineering Company under a credit granted by the Export Development Corporation of Canada and \$7m credit will go to the Jamaica Telephone Company to purchase switching equipment from Northern Telecom and the Westel Corporation, both of Ontario.

## Iran buys Toyota Landcruisers

Toyota Motor Corporation said it had won a large order from the Iranian Government for its four-wheel-drive Landcruiser. Reuters reports from Tokyo. The company declined to put a size on the order but the financial daily Nihon Keizai Shimbun said Iran had ordered 7,200 Landcruisers worth more than \$200m (\$50.1m) to be shipped by next March.

## Burma power deal

NORCONSULT, a Norwegian civil engineering consultancy, has won a contract worth nearly \$3m from the Electric Power Corporation of Rangoon, Burma, to plan and manage the implementation of a major power transmission project. Fay Gjester writes from Oslo.

## Hydro-electric order

A Japanese-Indonesian consortium has won a \$35m (\$88.3m) order from the Perusahaan Umum Listrik Negara, Indonesia's electricity board, to build a hydro-electric station. The power station is to be built on the Citarum river. In early 1982, Mitsubishi Corporation said it had won the order. The consortium comprises Taisei Corporation, also of Japan, and PT. Pembangunan Perumahan of Indonesia.

## Caribbean dilemma over tax deal

By CANUTE JAMES IN KINGSTON

SEVERAL countries in the Caribbean, eager to be beneficiaries of a tax incentive programme scheduled to start on January 1, are finding that they are being asked to how to Washington's demand for tax information on U.S. clients of offshore banks.

The Caribbean Basin Initiative (CBI), sponsored by the Reagan Administration, offers about 25 politically favoured countries in the region duty free access to the U.S. market for a wide range of products for the next 12 years.

The Caribbean dilemma is centred on a tax pact which the countries are being asked to sign with the U.S.

The agreement would allow U.S. business organisations tax credits if they held their conventions in countries designated by President Reagan as CBI beneficiaries. The U.S. State

Department has put the U.S. convention tourist market at 10m tourists per year, with a potential worth of \$5bn.

Allowing the U.S. Internal Revenue Service (IRS) access to confidential information on clients of the region's offshore banks would erode the basis of confidentiality on which the region's valuable offshore banking trade has developed.

The U.S. interest is based on the belief that certain known tax havens claim U.S. Government officials — that illegally earned funds are being laundered by U.S. citizens in Caribbean offshore banks.

Caribbean countries caught between this rock and a hard place, have not been hiding their feelings. Mr Hudson Tannis, the Deputy Prime Minister of St Vincent, recently told Washington he had no intention of signing the tax pact. His country, he said, had made

significant advances in cleaning up its image as an offshore banking centre, and did not intend to give the IRS access to confidential information on banking.

Mr Tom Adams, the Barbados Prime Minister, has been far from happy with the access the IRS will have to information on offshore banking clients in exchange for a piece of the convention tourist trade. Signing the treaty, said the Prime Minister, "would require the disclosure of information which normally could not be made available for a foreign government under local law."

According to Mr Linden Pindling, the Prime Minister of the Bahamas, his country could gain \$55m per year from the convention tourist trade, but allowing the IRS to prowling offshore banks would severely damage an industry from which the Bahamas gains \$300m a year.

## AMERICAN NEWS

## Transport safety review ordered

By Stewart Fleming

THE REAGAN administration has ordered a review of safety standards in the transportation industry in response to fears that the deregulation of sectors such as the airlines may have caused standards to slip.

Mrs Elizabeth Dole, Transportation Secretary, said that she would not tolerate any erosion of safety in transportation. The U.S. has recently also seen moves to relax standards in road haulage and rail transport. Consumer groups have argued that cuts in the number of inspectors have reduced the effectiveness of safety regulation in these industries.

The proliferation of small airlines that have started as a result of deregulation are causing the greatest concern. Consumer pressure has reduced profitability, resulting in, for instance corporate cost cutting measures.

Deregulation enabled easier entry into the industry and eliminated Government-opposed restrictions on routes, but was intended to retain safety regulation.

## New Colombian law enables Betancur to seek further loans

By ROBERT GRAHAM IN BOGOTA

COLOMBIA is expected to seek three loans totalling over \$800m (€633m) in the next six months. This follows approval by Colombia's Parliament on Friday of a new law permitting the Government of President Belisario Betancur to increase the country's foreign public debt by \$4.8bn over the next two years.

Approval for the new law was essential as a precondition for seeking new money since the Government had almost its limit on foreign borrowing. "We had less than \$20m before reaching the ceiling," Sr Edgar Gutierrez Castro, the Economy Minister, said.

He added that if the legislation had not been approved, it would have wrecked plans agreed with the Paris Club earlier this year for total foreign borrowing between 1983 and 1986 of \$9.6bn.

Colombia's total foreign outstanding debt is \$10bn. Sr

Gutierrez said. This year, Colombia, the most troubled of Latin American debtors, has borrowed \$2.2bn.

The new debt ceiling will enable the Government to go ahead with major investment projects including the recently awarded \$600m contract for the Medellin Metro system and several big hydroelectricity projects. Further foreign borrowing will also help to cushion Colombia's reserves against imports and through anticipated coffee payments.

The first of the new loans will be a two-part \$370m funding for the national electricity holding company, Fen. Of this, \$170m will be provided by the World Bank, while the remainder will come from a commercial bank loan in which the World Bank will also participate.

Bankers believe the response to the latter will be a crucial benchmark of Colombia's creditworthiness at a time when international bankers are wary of providing further funds to any Latin American country.

The next loan planned will be \$250m for the Medellin Metro, managed by Dresdner Bank (a West German Spanish consortium won the construction contract). This will be followed around April or May by a \$200m club deal similar to the recent one led by Chemical Bank, according to Sr Gutierrez.

Opposition to raising the ceiling on new borrowing was more political than economic. Sr Gutierrez came under fire from his own liberal party which is in opposition and feels embarrassed by his presence in the Government.

The vote is seen as an endorsement of his economic management and should dampen concern among international bankers that he might be forced to resign. Sr Gutierrez has been the key figure in dealing with the foreign banks and in providing credibility for Colombia's economic policy.

## Mexico's creditors agree to \$4bn loan

By Peter Montagnon, Euromarkets Correspondent

MEXICO'S leading commercial bank creditors have agreed to arrange a \$4bn (\$2.8bn) credit to help Mexico's debt service requirements in 1984.

The amount is higher than the \$3.5bn proposed earlier by the banks and reflects Mexico's desire to revive its ailing private sector with some economic refraction next year. The government of President Miguel de la Madrid also wants to continue rebuilding its foreign exchange reserves ahead of substantial debt repayments due in 1985.

A senior Mexican delegation is expected to meet again with the leading bank creditors today in New York to finalise terms on the loan. Despite the increase in the amount it is expected to carry a longer maturity and lower margin than the \$3bn credit arranged for Mexico last winter. That deal was for six years and bore a margin of 2 1/2 per cent over Eurodollars interest rates or 2 1/2 per cent over U.S. prime.

Mr William Reagan, the senior Citibank executive who chairs the banks' negotiating committee on Mexico, has argued for some months that the country's dramatic progress in turning its balance of payments round this year justifies easier terms on its 1984 loan.

But in spite of the general euphoria over Mexico's current economic performance, bankers are also looking ahead rather nervously to the second half of this decade when debt repayments are scheduled to become very large indeed.

Worries about this are new exacerbated by expectations in the banking community that President Reagan will announce a sharp cut in U.S. commodity credit lending in his budget for fiscal 1985, which begins next October. Some believe that the commodity credit programme, might be cut to \$1bn worldwide from \$2.5bn in the current year.

This would reduce the amount of official U.S. credit available to Mexico, as well as to a number of other financially pressed Latin American nations.

## Peter Marsh on U.S. plans to sell an earth-mapping satellite Landsat moves into private orbit

THE AMERICAN Government is preparing itself for the increasingly difficult task of disposing of its \$1bn (£700m) system of Earth-mapping satellites.

To attract interest in the hardware from the commercial world, the Government may be forced to give the hardware away, or even to subsidise heavily any private firm that takes over the system.

Next month the Commerce Department will formally invite offers from private industry for its Landsat network of remote-sensing satellites and ground equipment. The system runs at a loss despite the \$1bn that the Government and private companies have invested in the hardware over the past decade.

According to a Commerce Department official it looks increasingly as though the Government will not require bidders to hand over cash for the satellites. The craft take snapshots of the Earth from a height of some 600 kilometres and provide valuable information for, among others, farmers and mining companies.

Instead, the Reagan Administration may be forced to subsidise whoever operates the system to the tune of some \$150m a year in order to attract private enterprise.

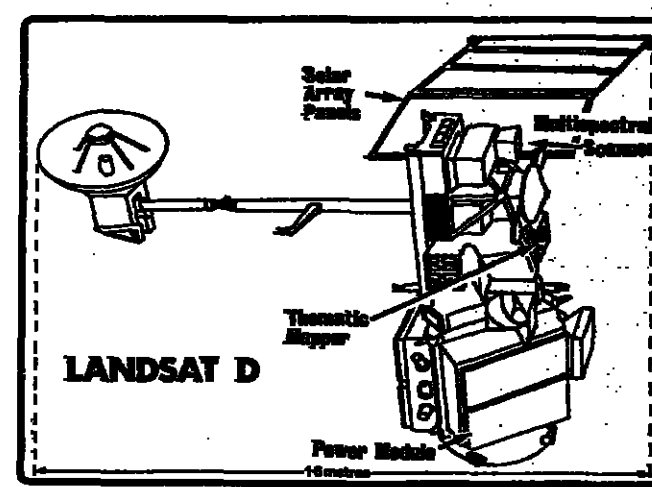
It is estimated that the Government has to pay out around this sum each year to keep the Landsat system in operation. The figure includes cash for capital equipment, such as new space vehicles, as well as running costs.

In remote sensing, vehicles scan the Earth with powerful sensors. The information is passed to ground stations by radio signals. Remote-sensing craft can, for instance, monitor the growth of crops or locate metal deposits.

In recent years the U.S. Government has found it increasingly difficult to capitalise on the lead it built up in remote sensing when it put into orbit the first Landsat craft in 1972.

Meanwhile, it is in danger of being left behind by France, which will launch two remote-sensing satellites, the first in 1985. Aided by investment of some \$400m, most of it from public funds, a company called Spot Image plans to sell data worth \$50m around the world by the late 1980s.

The U.S. may also face competition from Japan, which is to put into orbit its own remote-sensing vehicle in 1986. Two



Nigel Press Associates Ltd.

years later, the 11 West European nations grouped in the European Space Agency will launch a vehicle to scan the oceans with radar.

In recent years, sales have stagnated. In the 12 months to October 1983, the Government sold \$14m in sales to offset operating costs of \$21m. According to forecasts by the Commerce Department, the picture for 1984-85 looks even worse. Revenue is due to stay roughly constant with running costs rising to \$30m.

"There are a lot of problems," said an official. "There seems to be a fixed number of people who want to buy this kind of information. Also, users have been affected by the uncertainty over what exactly is going to happen to the service."

Not everyone takes this gloomy view of the prospects for remote sensing. Space America, a company set up a few months ago on the outskirts of Washington DC, says it intends to make an offer for the Landsat system. The firm is confident that, with improved marketing techniques and satellites that use new technology, it can cut costs and operate a remote-sensing service at a profit.

Ms Diana Josephson, president of Space America, is not disclosing the exact nature of the financial arrangements that her company will propose to the Government. But she says that the company would need extra investment of only about \$50m to put the Landsat system in shape for the late 1980s.

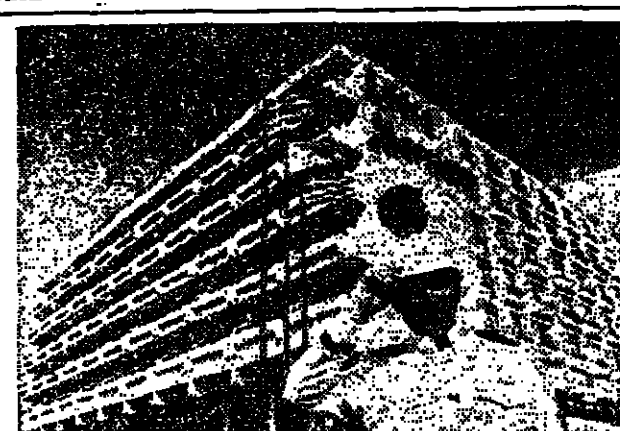
If the Government approves Space America's proposals, the firm would build a new satellite

Government's satellites. Space America has already lined up Honeywell to provide the sensors, which would give pictures with a resolution of 30 metres. Ford Aerospace has agreed to build the satellite, providing the Government approves Space America's proposals.

The rest of the \$80m would be spent on equipment needed to ground station and on the spacecraft itself. Space America would aim to recoup the cash mainly from private investors.

Other firms are far more reluctant to talk publicly about any plans they have for Landsat. Observers believe Hughes, RCA, and General Electric may be among those preparing bids. These companies have expressed interest in the Landsat system in recent years.

Companies will have until March to reply to the formal invitation by the Commerce Department. Firms which respond will have to satisfy the Government on a number of counts. These include their plans for funding the system and whether they will make the data freely available to foreigners.



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## UK NEWS

## Break-up of Hymac expected soon if no buyer is found

BY LYNTON McLAINE

Hymac, part of the bankrupt West German IBH group, and once UK market leader in hydraulic excavators, is expected to be broken up by the middle of January unless a buyer is found for the business as a going concern.

Urgent negotiations are being conducted to raise the maximum return for the creditors of Hymac by selling the business intact.

Mr Mark Homan, one of the joint receivers and managers of Hymac and a partner in Price Waterhouse, the official receivers said: "I have offers for the on-going business on the table and I am moderately hopeful that one or two of these will succeed."

Nevertheless, the fate of Hymac is in the balance. Steps will be taken to break up the company and sell its constituent assets separately if the talks fail to find a buyer for the business as a whole.

The receivers told the 580 employees of Hymac last week about the state of negotiations with prospective buyers. Most of the staff work on production of excavators at the Rhynney plant in South Wales.

with sales and support staff in Newbury, Berkshire, and Cumbernauld, Scotland.

The receivers are unable to sell Hymac as a company. The shares are in the hands of third parties and its liabilities are likely to be extensive.

Price Waterhouse said Hymac lost £8.6m and had an accumulated deficit of £15.5m in the 12 months ending December 1982. The company lost £3.1m after interest payments in the first nine months this year, on a turnover of £12.8m.

The receivers are making available for sale all the assets of the company and say they will "view favourably a lump sum cash offer for the whole of the undertakings of the company." Purchasers will not be expected to acquire the debtor balances.

● The receivers appointed to manage the affairs of Blaw Knox, the British maker of paving machines and part of the Wibu subsidiary of IBH in Germany, say they have had an "impressive queue of big companies looking to take over Blaw Knox."

## Windmill project costs may rise 50%

By David Fishlock, Science Editor

BRITAIN'S first megawatt windmill to be built in the Orkneys off the north coast of Scotland, is expected to cost up to 50 per cent more than originally envisaged.

The Department of Energy, which is to build the machine as the culminating step in its wind energy demonstration programme, is likely to ask the Treasury for an increase of 15 per cent in its research budget for 1984-85 to cover the extra cost.

Detailed engineering design by the Wind Energy Group (WEG) the consortium commissioned to design the machine, suggests that it will cost well over £8m, compared with about £5m only 18 months ago.

Wind energy is considered to be the most promising renewable energy source for electricity generation in Britain, since detailed design studies failed to confirm the earlier promise of wave energy.

WEG, which consists of British Aerospace Dynamics, GEC and Taylor Woodrow, has designed a twin-bladed windmill with a variable-pitch propeller 60 metres in diameter, mounted on a 45 metre concrete tower. The machine is designed to produce up to 3 Mw at a wind speed of 17 metres per second.

Average windspeed at the Orkney test site, although high for Britain, is only 11 metres per second. The windmill is expected to maintain peak output for only about 20 per cent of the time.

Its designers are estimating a yearly output of 9,000 Mwh at the demonstration site, on the basis of experience with two smaller machines commissioned earlier this year.

The Energy Department has been told of the new cost but is still waiting for final reports from the North of Scotland Hydro-Electric Board, and from WEG. One component of the cost increase is a change from a rigid hub to what engineers call a "soft transmission" in the 100-tonne nacelle perched on top of the tower.

A soft transmission is now thought necessary to absorb the considerable shock loads, which have led to fatigue failures and near-failures in other big windmills in the U.S., France and elsewhere. More generally, costs have risen steeply as WEG designers came to appreciate that it requires more advanced technology to harness wind energy economically than wind enthusiasts have appreciated in the past.

General Electric of the U.S., one of several major U.S. companies which embarked on the design and production of big windmills, abandoned the venture earlier this year. Alcos dropped out of the business last year and so has Bendix. But Boeing and United Technologies remain in wind power.

The Energy Technology Support Unit at Harwell, which acts as project manager for the Energy Department, sees the big British windmill as crucial to the UK's wind demonstration programme.

## Plastics aid urged

BY LISA WOOD

BRITAIN'S plastic industry, whose production last year was worth £4.5bn, has called for increased government funding for research and development.

The British Plastics Federation, in a working party's report published yesterday, said the industry received £8.6m a year out of total government support of £13.5bn for industry-related research and development.

Of that £13.5bn, most went on defence, space and civil aviation with "all other industries" receiving £85m. The corresponding figure for France was £224m and for West Germany £238m.

The federation said there were

other British industries with lower outputs, which received more government funding than the plastics industry.

The working party said the industry needed an overall strategy for research and development in key areas. It recommended that the federation should be responsible for the development of a strategic five to 10-year plan, which would be reviewed annually.

The report suggested that research and development should be concentrated in fewer locations.

Government-funded research and development in the UK plastics industry. From the British Plastics Federation, 5 Belgrave Square, London SW1.



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## UK NEWS

# Britoil cancels Scott Lithgow rig contract

BY MARK MEREDITH, SCOTTISH CORRESPONDENT

BRITTOIL YESTERDAY cancelled an £88m contract in Scotland with the Scott Lithgow shipyard on the lower Clyde for a semi-submersible drilling rig which is two years behind schedule.

The management of the yard has said that a cancellation would lead to the closure of the yard and the loss of its 4,250 jobs. However, in a statement last night, the shipyard said there would be no immediate layoffs and that it would challenge the Britoil decision in the courts.

As many as 8,000 jobs could be lost in the local communities of Greenock and Port Glasgow according to one study. Mr Malcolm Ford, joint managing director of Britoil said in a statement that the company had taken the step with great sadness. "British Shipbuilders have repeatedly declined to renegotiate the contract. Given past delays and future uncertainties, no client could be expected to continue with it."

Although the contracted delivery date for the rig was April 26 1984, the vessel is only about 30 per cent complete. Britoil produced diagrams showing that only two units on each of the semi-submersible's pontoons had so far been welded together.

Yesterday's announcement was a rejection of a submission by Scott Lithgow that the work could still be completed by the "drop dead" date of January 1985. Through a series

of counter claims, however, the yard which in 1980 was designated the lead offshore construction by British Shipbuilders, hoped to win further breathing space to complete the order by March of 1986.

Britoil ordered the rig for drilling in depths of 15,000 feet or more - much deeper than the 100 to 600 feet of the North Sea - to the West of Shetland and in the Irish Porcupine Trough.

The rough waters in these areas make it difficult to operate with traditional drillships. Mr Ford said the semi-submersible would allow a drilling season of five to seven months compared with as little as one month for a drillship.

Britoil would have to decide in the next few months what it would do about its programme. It could go back to using drillships or it could place a new order abroad. He said he would be glad to place the order in Britain, but he doubted whether there was a yard that could take on the work.

The announcement was greeted with a combination of resignation and anger by workers at the yard and there were renewed calls for government intervention to preserve the order.

The Government has refused to intervene with the yard to save the order following the extended history of delays and failures at Scott Lithgow which lost £66m last year

out of British shipbuilders' total losses of £117.4m. Penalty payments for the Britoil rig would have cost Scott Lithgow £17,000 a day.

A fundamental problem at Scott Lithgow has been its conversion from a shipyard to an offshore yard with a different set of demands and standards. However, recently the yard's management has tried to show that many of the right changes have been made.

The trade unions too have found themselves locked in a national dispute on wages and flexible working. However, they have said they are ready to talk about more flexible working at the Lower Clyde.

If the court action by Scott Lithgow, which has been expected by Britoil, fails, the yard is expected to start laying off workers in the new year. It still has another semi-submersible rig for BP which is near completion but which will also likely miss the "drop dead" date leading to possible cancellation. But, the yard again hopes to put in claims giving it extra time to complete by the early spring.

Work is also nearing completion on a special seabed operations vessel for the navy. There will probably also be behind-the-scenes moves to see if Scott Lithgow could be restructured, and its experience building offshore structures preserved.

# Lower pay 'would increase jobs for young people'

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

A CUT of 10 per cent in the average pay of young people could lead to a 20 per cent increase in the number of jobs available to them, according to a government research paper published today.

The paper, by Mr John Wells, a Department of Employment economist, suggests that a cut in wages of about £5 a week could cause youth employment to rise by about 80,000.

Although the figures are not precise, they are intended to illustrate a clear relationship between the number of jobs available to young people and their pay in relation to adult rates. The Government has been concerned that high wages for young people could be pricing them out of jobs.

The relationship assumes that the level of employment in the economy as a whole remains unchanged. Any general improvement might have a much larger effect on the prospects for young people than changes in pay levels.

The research does seem to support a central contention of the Government's economic strategy - that moderation in pay settlements is the best way to promote higher employment.

The Government's young worker's scheme, which provides for employment subsidies, was intended to encourage companies to offer jobs which would not otherwise be available. The Department of Employment believes that the response to this scheme suggests that many companies would employ more young people if wage rates were lower.

The latest research by Mr Wells appears to contradict earlier findings which discovered little relationship between pay and jobs. However, Mr Wells states that this is because the relationship between pay and jobs did not emerge clearly until the beginning of the 1970s. Previous research had concentrated on earlier periods.

# Minister gives TUC hope over Airbus

BY DAVID BRINDLE

MEMBERS of a Trade Union Congress (TUC) delegation which yesterday met Mr Norman Lamont, Minister of State for Industry, emerged "very hopeful" of government support for the European Airbus A-320.

In a further sign of thawing TUC-Government relationships, the delegation reported that common ground had been found with the minister on almost every aspect of the case for launch aid.

Mr Ken Gill, the left-wing general secretary of white-collar engineering union Tass who led the representatives of the TUC national industries committee, said: "We could say there were no basic disagreements between us at all."

At the meeting with Mr Lamont, the delegation expressed fears that the Government was putting the future of the aerospace industry at risk by delaying a decision on funding the Airbus project.

British Aerospace has asked for

£440m to finance its share of the development work. Rolls Royce wants another £113m to develop its V2500 engine, which it is hoped will power the 150-seat plane.

Mr Gill said there had been "complete agreement" from the Minister on the advantages of Britain remaining in the six-nation Airbus industrial consortium and on the importance of the A-320 to the British industry.

Although Mr Lamont had not been prepared to give a guarantee that the Government's decision would be positive, Mr Gill added, "our conclusion is that only some kind of political dogma could prevent the decision being made positively in early January."

Last month, the Prime Minister remarked in relation to the Airbus that she did not want "another Concorde" on her hands. According to the TUC delegation, Mr Lamont said yesterday that there was no comparison between the two airliners.

# TI deputy chief named as chairman

By Ian Rodger

MR RONNIE UIGER has been chosen to be the next chairman of TI, the diversified engineering group, succeeding Sir Brian Kellert, who retires next May after seven years in the chair.

The choice came as a surprise in some quarters because of recent reports that Mr Uiger, who became deputy chairman and group managing director of TI, formerly Tube Investments, last year had ruled himself out.

Mr Michael Boughton, the TI director who is to become the next deputy chairman, said that this impression arose because Mr Uiger felt the directors should examine the field before he indicated his interest.

Mr Uiger, who is 57, has spent most of his career at British Aluminium, the TI subsidiary which was sold to Alcan Aluminium of Canada last year after two years of heavy losses. He joined BA in 1961 as financial controller, was managing director from 1968 to 1978 and chairman until the disposal late last year.

He will take the chair at TI just as the group, once one of the leading figures in Britain's engineering industry, emerges from four years of drastic rationalisation and restructuring.

In 1979 more than half the group's capital employed was in steel tube and aluminium. Today, it is out of aluminium and more than two thirds of its capital is in specialised engineering, the Raleigh bicycle business and domestic appliances.

TI barometer, Page 11

# Way clears for sale of state arms factories

By Bridget Bloom, Defence Correspondent

BRITAIN'S government-owned arms factories are to be given company status next year in a key step towards privatising the companies, probably in 1985.

The government yesterday introduced a Bill under which the current status of the Royal Ordnance Factories (ROF) trading fund, under which the ROF operates, will come to an end next autumn.

The assets of the fund will be transferred to a company which will still be wholly owned by the Government but will be expected to operate "in a fully commercial manner" under the Companies Act.

Mr Michael Heseltine, the Defence Secretary, said yesterday the target date for company status for the 13 companies in the ROF was October 1.

There was no fixed date and no final plans for privatisation of the companies, Mr Heseltine said, however, the introduction of private capital was likely to take place in 1985.

# Fulmar gas pipeline wins state approval

BY RICHARD JOHNS

BRITISH GOVERNMENT approval was announced yesterday for Shell-Esso's £135m project to build a gas pipeline from the Fulmar field in the central North Sea.

The project should also be able to exploit gas from the nearby Clyde field - where Britoil is the operator and Shell and Esso are minority partners - upon its completion in 1986.

The 180-mile pipeline might, in addition, stimulate the development of other gas projects in the area discovered by Shell in partnership with Esso.

The Fulmar platform's processing facilities will be designed to handle associated gas from a peak output of 100,000 barrels a day, or the equivalent of about 100m cubic feet a day of gas and natural gas liquids.

Recently, the rate has reached 125,225 b/d and should peak near to 180,000 b/d. But this plateau could be of relatively short duration, according to Shell, the operator of Fulmar. Thus, the pipeline could make possible the exploitation of

associated gas from either Clyde or other fields nearby. The development is in line with the renewed emphasis by the Government on the fuller commercial exploitation of gas associated with oil production in the North Sea.

Mr Allick Buchanan-Smith, Minister of State for Energy, said yesterday: "I am keen to see companies themselves develop plans and invest in gas gathering. I am encouraged by Shell-Esso's proposals for Fulmar."

Fulmar gas and liquids will be transported through a 4.5-metre pipeline from the Fulmar field to the Shell-Esso plant at St Fergus, Aberdeenshire, where they will be separated. The gas will be piped on to the British Gas Corporation's plant at St Fergus, while the liquids will be sent by pipeline to the Shell-Esso fractionation plant at Mossmorran, Fife.

Shell and Esso are the majority partners in the Fulmar project, with a shareholding of 66.7 per cent each.

# Strike order to shipyard workers

BY OUR LABOUR STAFF

MORE THAN 10,000 engineering workers in British Shipbuilders (BS) yards will be instructed by their union to strike on January 6 over a breakdown in talks on pay and productivity.

About 400 members of the sheet metal workers' union has also decided to issue a strike call. Neither union has balloted its membership.

The key to the national strike, however, rests with the executive council of the General Municipal and Boilermakers' Union (GMBU), the major union in the industry, which meets today to consider the results of the ballot of its 30,000 members in shipbuilding.

About 62 per cent of those voting

supported the move for an indefinite stoppage.

Mr Jim Murray, general secretary of the GMBU boilermakers' section, said yesterday that there was little doubt a strike would start three days after the return to work after the Christmas and New Year holiday. But it is felt that not all the union's executive council will be convinced by the argument.

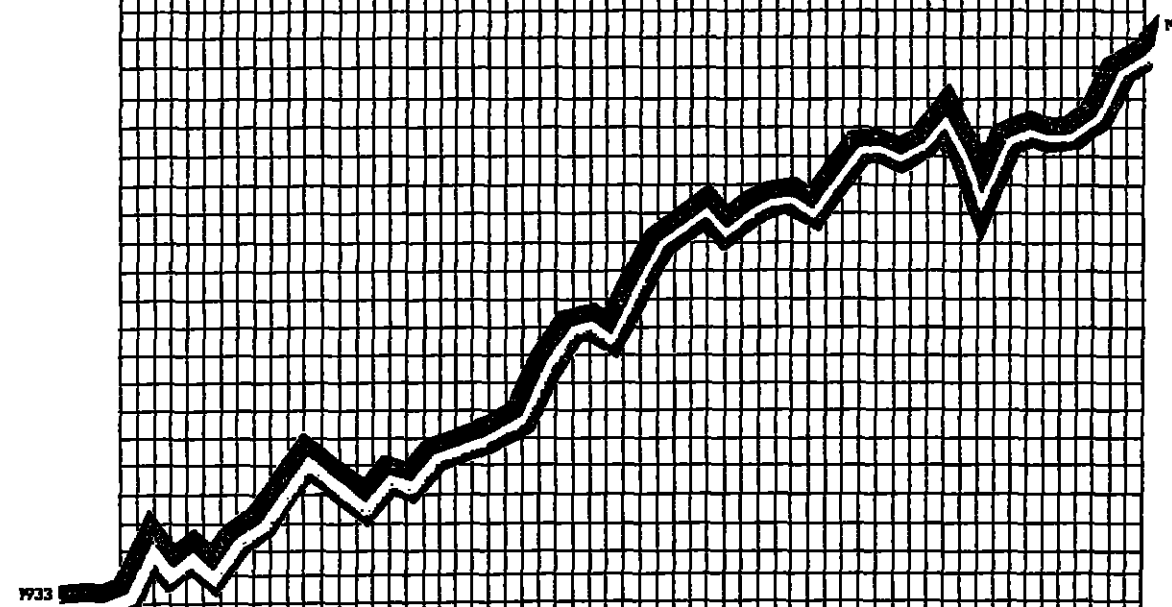
With BS battling for survival and many yards facing empty order books, some GMBU leaders may favour selective action which could exempt the most vulnerable workforces.

The engineering union did not hold a ballot on the strike call be-

cause, it says, its members were clearly in favour of the action. "They were looking for a lead and we have given it," Mr George Arnold, union executive member responsible for the industry, said.

Of the other shipyard unions, the electricians' union (10,000 members involved) and the white-collar union Apex (3,000) are both holding ballots.

Anger rose among the unions yesterday over the departure on holiday to his native Canada of Mr Graham Day, BS chairman. He is expected to be away for three weeks, but is said by BS to be willing to return at a moment's notice for talks if the unions produce any initiative to avoid a strike.

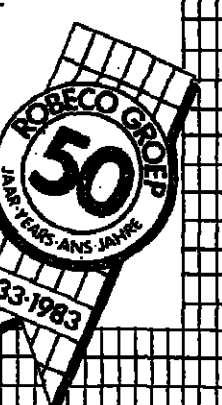


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# Steel tube group calls in receiver

By Peter Bruce

GROOM & TATTERSALL, the Northamptonshire steel tube producer, has gone into receivership. It is the fourth major setback this year for Britain's private sector steel tube makers.

Receivers said the tube mill, which had a capacity of 15,000 tonnes a year, had "suffered losses in the recession in the steel trade resulting in liquidity problems." They said they would be trying to sell the business, and save the 40 jobs at the mill.

If, as seems likely, the business is not sold, UK welded steel tube capacity, of roughly 550,000 tonnes a year at the beginning of 1983, will have been cut by up to 80,000 tonnes.

In October, Acrow closed its 50,000 tonnes a year tube works near Cambridge. Earlier this year Senior Engineering closed its Greens Economiser Group's tube works when it bought the group and transferred some production to its own Phoenix Tube business. That too, has been rationalised.

Probably the biggest retreat from the business involves the recently announced joint venture between the TI Group and the British Steel Corporation (BSC) in small diameter seamless tubes. TI has merged its big Wednesfield mill with BSC's seamless finishing facilities at Corby, Northamptonshire, but has retained only a 25 per cent stake in the new business.

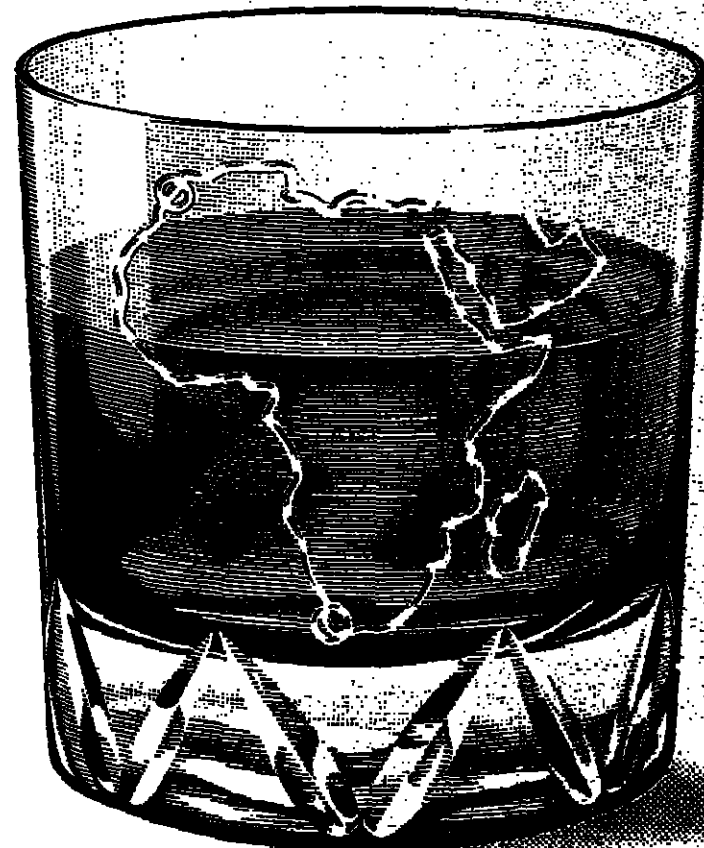
Despite the industry-wide cuts, overcapacity in welded tube in the UK is still reckoned to be running at about 100,000 tonnes above the 400,000 tonnes a year level at which analysts believe some price stability would be restored.

The private sector, which consists only of Natural Gas Tubes, part of the Caparo Group, Phoenix and TI, has been particularly hard hit by pricing policies adopted by BSC at the beginning of the year. BSC cut its tube prices by up to 25 per cent and very quickly raised strip prices. The independent tubemakers bought most of their strip from BSC.

Groom & Tattersall, with about 4 per cent of the UK market in small diameter welded tube, is also thought to have been damaged by a recent increase in the price of narrow strip, which it was forced to buy because it had no coil sitting facilities.

In February, the independent tube producers accused BSC of deliberately trying to drive them out of business and threatened to take the issue to the Government. This initiative died, it is thought, because of an expected strengthening of prices in the summer.

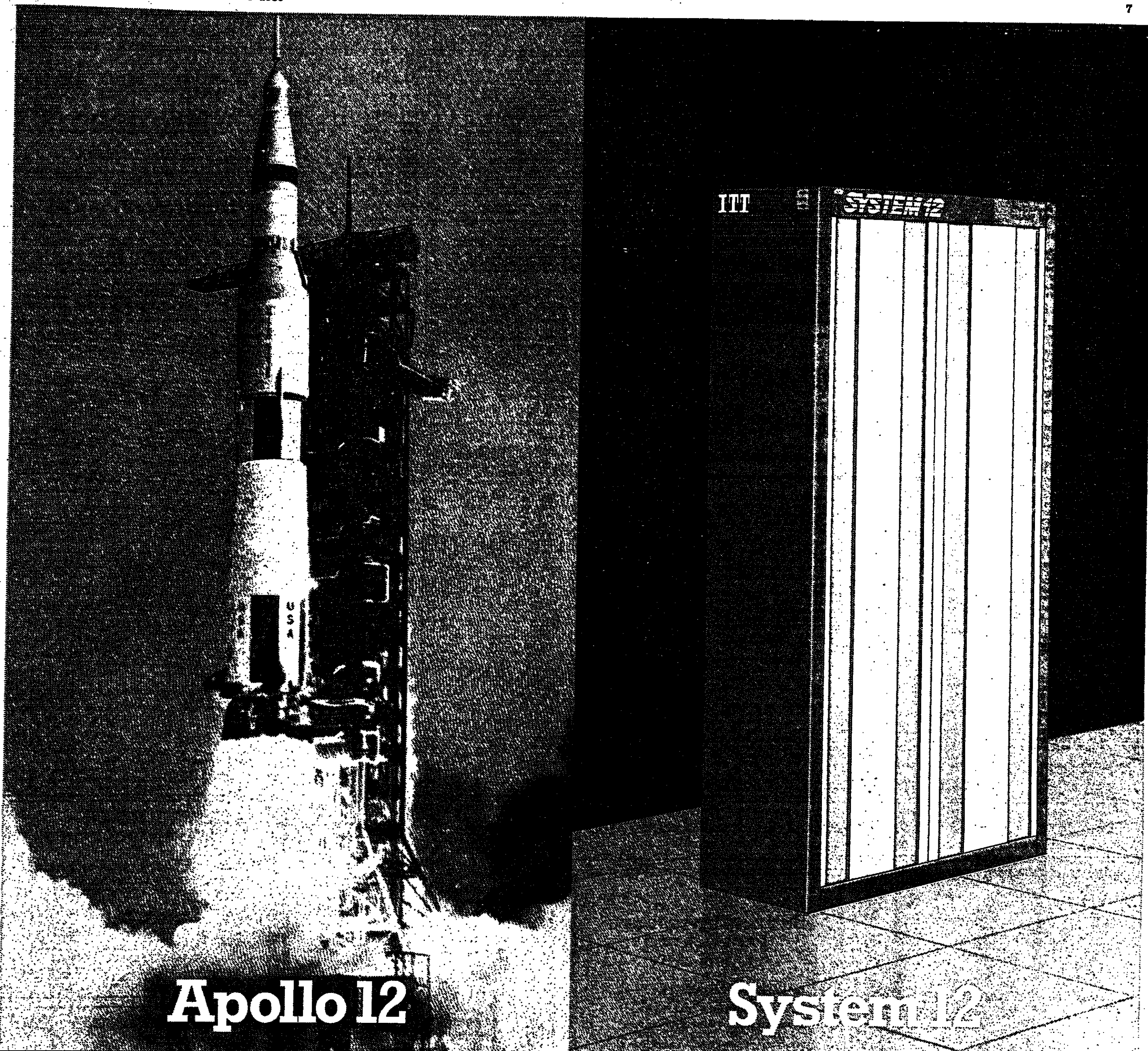
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## THE MANAGEMENT PAGE: Small Business

WHAT DO Brunel bridges and Morris Minors have in common? Nobody knows the answer to that question better than Charles Ware, avid Brunel worshipper and proprietor of the Morris Minor Centre in Bath.

Apart from both being antiques, the great Victorian bridges and those humble, bulbous runabouts share one important engineering principle: they are designed so that parts can be repeatedly replaced and repaired without distorting or weakening the overall structure.

So long as they are maintained, their lives can be extended almost indefinitely at relatively low cost. This means "there are real economic and practical reasons for putting money into old motor cars," argues 48-year-old Ware.

On the strength of that simple theme, he has launched himself in the space of seven years from bankrupt former property dealer to head of a thriving Morris Minor renovation and parts distribution business, with an annual turnover of £1.5m and pre-tax profits of £110,000 in the year to last September.

In the New Year, Ware will take over the factory next door to his 6,000 sq ft workshop in an industrial suburb of Bath to start making the first Morris Traveller bodyshells since the range went out of production in 1971.

And at next October's Birmingham Motor Show, he plans to unveil updated versions of the Minor and Traveller, with 1.3 litre engines, modern seats and heating, disc brakes, soundproofing, improved suspension, and optional automatic gear-changing—all for around £8,000.

"Except for the basic shape, it will be exactly like a modern car," says Ware. But if it sounds too pricey, he is negotiating with a building society for a long-term Morris Minor financing package—similar to a mortgage and different from the three-year maximum for repayments which generally applies to car loans.

Seated in his tiny, oil-stained office, Ware waxes lyrical about the economic advantages to drivers of so-called "durable" car ownership. Since the 1973 oil crisis, fuel efficiency has been uppermost in the minds of car designers, he points out. The result, he says, has been a generation of lightweight vehicles built of thinner-gauge steel than their more solid predecessors and therefore with a shorter body life.

As manufacturers have striven to cut labour costs and to mechanise production, they have tended to produce what



Charles Ware: "real reasons... for putting money into old cars"

## A Minor revolution in car-selling

William Dawkins reports on a specialist renovating service

Ware calls "solid state" cars, which are highly efficient for their first few years of life, but thereafter depreciate in value very quickly as they rust and need major mechanical repairs.

Their design means that major repairs are often the result of small faults. If one component of the gearbox packs up, for instance, a solid-state car may need a whole new gearbox. With a durable car, like the Morris Minor, it may be possible simply to replace the component.

Ware maintains that putting fuel efficiency before bodywork and ease of repair is "like throwing out the baby with the bath water," because depreciation forms by far the largest element of the running costs of planned-obsolescence cars.

He estimates that such cars cost around 22p per mile to run, of which depreciation takes 15p, while a durable car with a slightly higher routine maintenance bill will cost just over half as much to keep on the road.

As well as Morris Minors, his list of durable cars includes

Volkswagen Beetles, the Triumph Herald, Austin A40, early Ford Escorts and Cortinas and his own vehicle—a 20-year-old Mercedes.

Ware also accepts that some modern cars, like VWs, Volvos, Rolls-Royces and Porsches, have durable bodywork, even if they are designed on the solid state principle.

For 80 per cent of the 16m car users in the UK, Ware's argument is unimportant; they drive company cars, which tend to be kept for only 40,000 miles and losses on them can be written off against tax by the corporate owners.

"But it does mean that those people in the banger market will no longer have access to cars they can use for 15 years," says Ware.

Ware reached his passion for Morris Minors via the unlikely route of routes. Originally an art lecturer at the Slade School, he started a building business in 1963 renovating early 19th-century houses in Bath. By the late 1960s, the property boom had made him a millionaire, but the subsequent property slump left him bank-

rupt in 1971, owing £500,000. He borrowed £500 from friends and turned with no real idea of what he was doing, until it dawned on him that "the structural standards I had applied to old buildings could just as well be applied to cars."

The Morris Minor seemed an obvious choice as a renovation candidate because it was fashionable and looked as if it would last. "The cars seemed interesting and the people who owned them had a special relationship with their cars. They seemed like friends."

With an estimated 200,000 Morris Minors and Travellers on the road, 10,000 of which change hands annually, there seemed to be a reasonable market. So Ware persuaded his friends to stump up another £10,000, bought eight cars to repair and set up with three workmen in his present premises.

Almost to his surprise, turnover shot to £100,000 in the first year and Ware—who now employs 30—had a nine-month order book on his hands. "We didn't have any real banking facilities, so customers' deposits were our only working

capital. If you are starting up a business with nearly nothing, you become totally aware of cash flow," he says with grim understatement.

Indeed, since that experience, Ware has never marketed his services, beyond taking a fortnightly advertisement in Exchange and Mart and relying on press publicity.

At the outset, the strategy was to employ a one-off renovation package for Morris Minors, which would turn an aged bone-shaker into an effectively new car with a five-year guarantee for up to £2,500. "For some customers, a bill of that size was a real turn-off. We wanted to keep on improving our standards, but there was a danger of pricing ourselves out of the market," says Ware.

He was unwilling to provide a cheap short-term repair service, so turned instead to priority spending schemes. Customers were offered a list of priority works based on a survey of their vehicle, which could be spread over several years to minimise the initial cost.

"We developed a total life support system, which allows a car to keep running for up to 30 years," Ware is now planning a similar package for a staged modernisation based on the car he is introducing next October.

As volumes increased, it became clear that Ware's office was too small to store spare parts.

So the company took a 5,000 sq ft warehouse nearby and, supplied by original Morris Minor subcontractors, set up a mail order distribution service. In the past two years, it has grown to take two-thirds of the company's turnover and provide useful cash flow.

The success of the parts business, where half of sales go to other garages and do-it-yourself enthusiasts, highlights the limitations on Morris owners' willingness to drive to Bath for Ware's services. Some customers have come from as far as Dublin, but Ware realises that his growth in a specialist market will be limited unless he can spread his net.

For this reason, he hopes to build up a chain of licensed garages, approved and supplied by the centre. The first, attached to the Stormont Ford dealers' bodyshop in Woolwich, London, opened three years ago. But, Motors, Leyland dealers' Newbury up-type, opened a second last autumn.

Ware's ultimate dream is to design and produce his own car to replace the present generation of durables. The idea has a familiar ring for those who remember the late Lorenz fiasco, but Ware is setting his sights on a more utilitarian product.

### In brief . . .

A ONE day "Start Your Own Business" course on January 11, geared specifically to the needs of art and design students and graduates, has been arranged by the ILEA Careers Service and the London Enterprise Agency (LEA). Up to 100 places will be available at £5 each and the venue will be the London College of Printing.

The Careers Advisers to the ILEA Art Schools say the unemployment situation is driving more and more of these clients to consider setting up on their own. Course details from Vicky Sargent of LEA on 01-245 4444 or Angela Dean and Anne Francis of ILEA on 01-734 8531.

THE Dutch will play hosts to next year's International Small Business Congress (the 11th), due to be held in Amsterdam on October 24 to 26. During the congress the results of an international survey conducted among 2,600 entrepreneurs in ten countries will be presented and discussed. Details from Congress Secretariat, c/o Organisation Bureau Amsterdam bv, Europaplein 22, 1078 GZ Amsterdam, The Netherlands.

THE plastics, computers, precision engineering and consumer sectors have shown the most notable improvement in performance this year, according to surveys of Smaller Manufacturing Firms conducted by the Confederation of British Industry over the last ten months. "The pattern emerging has been up and down, although from a low base," says Jeremy Deane, chairman of the CBI's Smaller Firms Council.

The closing date for Opportunity Wales, a competition to encourage invention and initiative in Wales, is January 10, 1984. Individuals, groups of individuals and businesses with a turnover of less than £250,000, are invited to enter new product ideas with evidence of potential for manufacture and commercial application. The winner of the competition, which is sponsored by Wales International Management Centre with the support of the Design Council and RTV Wales, will receive £2,500 and the runner-up £2,000. Details from Wales International Management Centre, 6-8 Albany Road, Cardiff, CF2 3EP.

Tim Dickson

## Venturing into Scotland

BY MARK MEREDITH

YOU MIGHT expect to meet a venture capitalist in the City of London or perhaps one or two in Edinburgh's Charlotte Square. But not in a modest company in Fife.

But then a lot of things are unexpected about Fortronic, one of the top producers of bank-holding terminals, and its managing director, Hugh Smeaton.

By forming a small constellation of companies feeding goods and services into the main group company, then to each other and, as they grow, to the rest of the market, Smeaton has taken a crack at some of the substantial problems in developing Scotland's electronics industry.

Two principal problems have been the very small number of financial institutions in Scotland providing venture capital and the difficulties in encouraging adequate manufacturing and product development to counter the tendency, for example, towards managerial spin-offs from large corporations developing in service industries such as software houses.

Smeaton, aged 49, overcame both these by establishing, for relatively little money, 14 satellite companies around Fortronic Holdings, giving 25 per cent of the equity of each to directors and holding 75 per cent himself.

To use the language of the venture capitalist, Smeaton is a "hands on" manager, injecting the right managerial or technological assistance to help the companies he has set up or acquired get through their difficult start-up troubles.

Around Smeaton now are a software house, an international sales and service operation, a distributorship for Wang, a word-processing bureau also offering training, a management service for turnkey projects involving financial data bases, a light mechanical assembly facility to take on sub-contract work such as printed circuit boards, a project design consultancy, a specialist software house and a contract research and development firm.

There is also a company specialising in information technology, another making plastic casings for terminals and an electronic design and draught-

ing house. Total turnover is now around £2.7m a year.

However, while Smeaton encourages each company to do its own thing, the holding company obviously revolves very much about the determined and at times volatile character of its managing director.

Smeaton has won numerous awards and a number of fees as he has runned home a company philosophy designed to get his staff thinking in terms of customer satisfaction, excellence in production and integrity in business dealings.

He is a convert to the business ethics outlined in "In search of excellence", which has become something of a bible for management in parts of the U.S.

A group philosophy has been drawn up, much of it taken from the book, and recently Smeaton and his managers held a weekend session to agree on its implementation.

Smeaton, a self-made man who is hardly at home with the more genteel parts of the Scottish business community, puts it to them straight: "You take care of the customers, and I'll take care of you."

A two-page outline of the philosophy drawn up last month talks of dedication to and placing interests of customers before employees, and employees before shareholders. It is heavy stuff, perhaps, but the kind of talk that has influenced important clients such as Burroughs, which recently placed a £31m order with Fortronic for banking terminals.

Much of the group philosophy is aimed at gaining converts to its way of doing things before any such time as the company might either be floated on the untested securities market or go for a full quotation of the Stock Exchange.

There seems little likelihood of any early flotation, though. London Trust, with an effective £1.8 per cent share has just put up £250,000 to boost Fortronic's working capital and it does not think the date is ripe. Smeaton, with a 18 per cent share, is not keen on the idea in the immediate future, either.

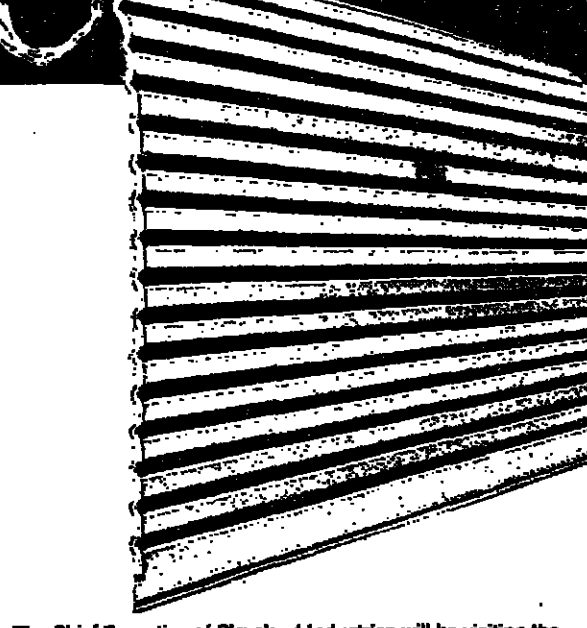
By Thomas Peters and Robert Waterman, Harper and Row, £12.50.

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Tuesday December 20 1983

# A single market in Europe

IT WILL take more than a mere merger between Philips of Holland and Grundig of West Germany to create a "European solution" to the problems created by the success of Japanese manufacturers in the European market for electronic consumer goods. Past experience of European combinations across national frontiers confirms that there are no quick fixes available in restoring Europe's competitiveness. Philips and Grundig will only thrive if the combined operation can be run rigorously and as one flexible entity by the Philips management, and if the joint company is then permitted to exploit the right opportunities across the whole European marketplace.

## Already decided

The right opportunities are those products in which the combined group can stand upon its own feet as an innovator and producer. A senior official of the West German technology ministry, Dr Uwe Thomas, warned recently against European companies and government officials becoming obsessed with products like video recorders and video games, where the battle for producer dominance has already been fought and the outcome decided in the 1970s. "We should continue to manufacture first-class colour television sets in Europe — but we should by no means make a second steel industry out of this sector if it gets into trouble," he said. Philips and Grundig cannot expect to be treated like a protected species.

When the present French Government first came into office, its catch-phrase in industrial policy was that "there are no condemned sectors, only obsolete technology. Since then, a more pragmatic view has gained ground in France, which might be paraphrased: "There are no condemned sectors or sectors of guaranteed success, only well-run companies and badly-run companies."

This change in French perceptions is part of a general shift in national economic attitudes within the EEC in the direction of freer enterprise. The mix of policy changes varies considerably from country to country, and some

have started later than others. But the ingredients are: efforts to control government borrowing, a clampdown on eligibility for aid and benefits of social security, privatisation of state enterprises, further tax incentives for the corporate sector, legal restraints on the activities of trade unions and moves towards deregulation in the national markets for goods, services, labour and capital. Such efforts at a national level to shake up comfortable assumptions and economic rigidities borne of 20 years of mounting prosperity are only the first phase of what is needed. The second is to make the entire European marketplace available to the more effective enterprises which should result from this process.

There is already widespread tacit support for the cause of trade freedom within Europe, but the cause seems to remain low on the collective list of priorities. Partly this is because the EEC's budget problem still dominates high-level thinking. Partly it is because European trade freedom involves a myriad frontier rules, technical norms, service sector conventions, and public procurement restrictions which can only be unpicked with great labour. And partly it is because it involves fundamental choices as to how dirigiste and protectionist Europe should be.

That national economic policies are becoming more rigorous, it is time to devote a great deal more political will to making the European marketplace keep up with the times.

## Higher priority

The painstaking work of the EEC's internal market council of trade ministers needs to be given higher priority, as they seek to eliminate unnecessary rules restricting trade between member states. There should be a determined attempt to give the EEC's internal market a public procurement dimension to public procurement policies. The talks between the UK and France exploring the idea of a joint market for telecommunications equipment are a bilateral step in the right direction; it is in the national economic attitudes within the EEC in the direction of freer enterprise. The mix of policy changes varies considerably from country to country, and some

# Leaks, the press and the law

THE CASE of the document leaked from the Ministry of Defence to the Guardian newspaper is a peculiar one by any standards. The document was deposited anonymously at the paper on October 21. It concerned the tactics to be adopted by the Government to Parliament and the Press on the arrival of the first cruise missiles at Greenham Common. The Guardian checked the information it contained against other sources and eventually published it in full. Last week the Court of Appeal ordered that the document must be passed to the Treasury solicitors, and the newspaper had little alternative but to comply.

There is no automatic sympathy for anyone—whether in the Civil Service or in the private sector—who deliberately leaks confidential information and who does so anonymously. Although in extreme cases, involving say corruption, such behaviour might be regarded as this was not one of them. It appears to have been a mischievous leak for political purposes, and the Government is quite right to wish to find the culprit.

It is the way in which the Government has gone about it, however, that gives cause for concern. The statute involved was Section 10 of the 1981 Contempt of Court Act. It is worth noting that the statute was designed to protect the recipients of information, not to punish them, and that the law had not been previously tested in the courts.

The section reads: "No court may require a person to disclose, nor is any person guilty of contempt of court for refusing to disclose, the source of information contained in a publication for which he is responsible, unless it is established that disclosure is necessary in the interests of justice or for the prevention of disorder or crime."

## Vague

It can be seen at once that the wording is extremely vague. Although there must be some definition of "national security" which few people would dispute, there must be many more cases where there is room for doubt.

This lack of clarity seems to have had its effect on the judges. For the most remarkable fact about the case is that there was no single point on which all the judges agreed. In the High Court Mr Justice Scott rested the Government's case for the return of the document on the ownership of copyright in the Section 10 of the Contempt of Court Act. Yet in the Appeal Court the emphasis switched to the security question. Lord Justice Griffiths found that there might be grounds under Section 10 under which the newspaper could keep the document. But it was the Government's insistence that national security was involved—on the grounds that the leaker must be found out, or the leaked something else—that carried the day.

## Haste

The whole business seems also to have been conducted with unseemly haste: from the High Court to the Appeal Court within 24 hours. And while the appeal judges gave the newspaper leave to appeal to the House of Lords, they refused to grant an application that the return of the document should be delayed until the appeal had been heard.

Two points arise; one general and one particular. The general point is that there is something wrong with a system of government which is recurrently throwing up problems about secrecy. Too many documents are marked secret in the first place and too many decisions are made in private when they could be made more openly. The result is a temptation to leak and, from time to time, the bringing in of the clumsy apparatus of the law.

The particular point is that the judgement in the Guardian case should be challenged. The paper has the right to go to the Lords. It should do so. For it is doubtful whether the statute has been applied in the way it was intended. The Government's case on security grounds was flimsy, the recipients of information have not been protected, the culprit is unlikely to be found in this way, and above all the law needs to be clarified.

OF THE five previous Japanese Prime Ministers none lasted much more than two years in office. One died, one resigned under a cloud of scandal, one simply gave up the ghost and the other two got themselves into insuperable political difficulties.

Now it is going to take Mr Yasuhiro Nakasone a lot of luck and domestic political skills of a dimension he has yet to display if the string is to be broken.

All his predecessors were from the same conservative camp, the inaptly named Liberal Democrats, who have run Japan as the LDP since 1955 and, in a different manifestation, since 1948. As the party presided over the incomparable Japanese economic miracle and its generally successful adaptation to the more straitened circumstances of the last decade, it sometimes seemed to matter little who was personally in charge of the shop at any given time, so effective was the combination of a broad national consensus, an efficient bureaucracy and a thriving private sector.

It is not clear if Sunday's general election has changed this fundamentally. In the short term it has obviously greatly damaged and may even mark the beginning of the end of the political career of Mr Nakasone himself, seen in Washington and Europe as something of a symbol of Japanese conservatism and outward-looking Japan. A weaker, less assertive government, marching principally to a domestic political drummer, seems inevitable.

This may come as a greater shock to the western world than to the Japanese themselves, who still prize deference more than outspokenness, who have never found Mr Nakasone particularly attractive and who may derive some pleasure in seeing him cut down to size.

Yet Mr Nakasone was at least addressing some of the larger issues of the day, which few other Japanese politicians do. Even if only by default, he was thus giving a sense of leadership to the conduct of Japan's external relations. And Sunday's elections could leave a vacuum at a particularly sensitive time in international affairs.

The ruling party has suffered setbacks of comparable magnitude before, and recovered. It did much worse in 1976, for example, an earlier election also dominated by the Lockheed scandal, yet four years later won a landslide victory. Its share of the popular vote on Sunday, nearly 46 per cent, was four points above its 1976 nadir and only two below what it scored in 1980, representing minimal erosion of the base of its support; and it will almost certainly form the next government because it can obtain the simple majority it lost on its own account this time by co-opting enough conservatives from the 16 independents returned to the new Diet.

Rarely can an electorate have offered such a bewildering array of contradictory signals. For a start, in a very un-Japanese way, people stayed at home in record numbers (according to Mr Nakasone because of frigid weather); equally untraditional was the wholesale election of many older MPs in favour of the younger generation.

Obviously many Japanese did vote, or chose to abstain, on the issue of political ethics, which hurt the LDP as the party in power. But they returned the national arch-villain, Mr Kakuei Tanaka—his two-month old

## Japan's election

# Nakasone: suddenly all bets are off

By Jurek Martin in Tokyo

Lockheed bribery conviction notwithstanding—with what was said to be the largest individual majority ever won by a contemporary Japanese politician. Two other MPs involved in headline-making scandals were also sent back to the Diet.

Moreover, the Tanaka political faction did less badly than its principal LDP rivals, thus simultaneously making it more difficult for Mr Nakasone to disperse with Mr Tanaka's backing and for the party to free itself of the Tanaka connection by "doing something serious" about political ethics. Just about all the individual politicians who would like to be Prime Minister saw their positions weakened, which may give Mr Nakasone some perverse comfort.

Perhaps the most clear-cut lesson was in the opposition's performance, a notable triumph for the forces of the middle and for the virtues of organisation (which the LDP, by running too many candidates, seemed to forget this year). If one politician's stature has clearly been enhanced it is that of Mr Masashi Ishibashi, the Socialist leader, who not only saw his party make its first gains in eight years, but who was also the architect of the pooling of resources with the centre parties, Komeito and the Democratic Socialists, in key constituencies.

Assuming he survives as Prime Minister, which he may though largely for want of a viable immediate alternative, Mr Nakasone is now going to have to tread very carefully. The outside world can probably forgive the old Japanese initiatives in strategic security affairs or the trade field—and the U.S. may have to forgo an early end to the ceiling that limits defence spending to 1 per cent of Gross National Product (currently hovers at 0.8 per cent).

In domestic policy largely neglected in the Nakasone first year, similar constraints apply, because the Government is unlikely to be strong enough to ram proposals through parliament, or the bureaucracy. Privatisation of a U.S. talent entities, like NTT, the telecommunications monopoly, and

parts of the railways, will probably proceed more slowly, as will Mr Nakasone's own desire for education reform.

But the first hurdle, and a sure indicator of how the political scene will develop, is the formation of a new Cabinet, presumably though not certainly within the next ten days. For it is in cabinet making that the intricate Japanese art of balancing political interests comes into play; Mr Nakasone's survival even into the New Year may depend on how he handles this task.

His first cabinet, three of whom were defeated on Sunday, was dominated by Tanaka men and his dependence on the Tanaka faction has not been diminished. Yet there is no doubt that all the other factions ascribe their losses to the Tanaka affair and are extremely bitter about it; indeed, the sharpest critics, the Fukuda and Komoto factions, believe the party as a whole cannot address the question of political ethics without resolving

## HOW THE FACTIONS WORK

THE FIVE leading factions (Tanaka, Suzuki, Nakasone, Suda and Komoto) are really parties-within-a-party. With the opposition enfeebled for so long, the LDP factions have essentially become the real political action in Japan. The frequency with which Government leadership changes hands in Japan invariably reflects factional infighting, which in turn generally stems from personal conflicts and rivalries.

Factions have also flourished for two social reasons—the Japanese preference for doing things in a group and the highly developed national sense of mutual obligations. Some factions, most notably that of Mr Takeo Fukuda, are held together by nothing more sinister than marriage.



Prime Minister Yasuhiro Nakasone sipping tea while awaiting the election results.

the former Prime Minister's status in the Diet; after the election, many of them may well support a renewed opposition attempt to call on him voluntarily to resign. The LDP's losses make such a resolution eminently more possible, but it is far from clear how Mr Nakasone will square such a difficult circle.

Compounding the problem is the fact that each faction is ambitious, both for more power for itself and for the potential Prime Ministers it harbours within it. The current line-up features Finance Minister Noboru Takeshita (Tanaka faction), though said to be not a favourite of Mr Tanaka himself; Mr Toshio Komoto (his own faction); Mr Kichiro Miyazawa (Suzuki) and Foreign Minister Shintaro Abe (Fukuda, though some say the grand old man himself wants another crack at Mr Nakasone's job before he gets too old), plus others as yet undreamed of—Mr Zenko Suzuki was the

perfect example of a virtual unknown hauled from political obscurity in 1980 to fulfil a perceived party need for a non-controversial interim leader.

The factions themselves are also divided into categories, "mainstream" and "non-mainstream." The historical justification for the delineation was to identify those which were part of the original conservative re-alignment of 1955 which produced the modern LDP; today the distinction depends on whether or not a faction generally supports the Prime Minister and party leader on the main issues of the moment.

Presently, the mainstream consists of the Tanaka, Suzuki and Nakasone factions, the non-mainstream Fukuda and Komoto (there are also independent and a small rump still bearing the name of the late Mr Ichiro Nakagawa). It is, however, a moveable feast. For a long time the Nakasone faction was non-mainstream; Mr Fukuda's the reverse.

However policy differences, as opposed to more frequent disagreement on political tactics, are only sometimes a factor in these divisions. Mr Komoto's advocacy of deeper tax cuts and a greater official commitment to economic growth mark him out as something akin to a British Tory "wet" (it also makes the opposition wonder if he can be seduced away from the LDP to head a coalition government). But the parties should not be confused too far: the Tanaka faction, for example, which is full of a lot of hard dry men, is also associated with its leader's belief in the efficacy of heavy public works spending. There are also shades of difference, again moveable, on foreign policy, defence spending and the re-writing of the post-war "peace" constitution. Mr Nakasone was considered a hawk before he entered office and has done nothing in the last year to dispel the image. The current non-mainstream factions tend to be more restrained about hitting the Japanese star completely to the American wagon, though whether out of conviction or

## Men & Matters

### St. Michael's men

Lord Sieff, the man who guided Marks and Spencer into its present premier position in British retailing, has finally decided to step down as chairman in favour of Mrs Thatcher's favourite civil service axeman Lord Rayner.

The move is to take place next July after the company's annual general meeting. It coincides with a wholesale shake-up at the top of Britain's largest and most successful retail chain. Out into retirement go Michael Sacher, vice-chairman; John Samuel, finance director; and directors Frank Hirst and Vernon Osborne. These directors have been with the group for between 28 and 35 years.

In comes a trio of young blood to add support to the 75-year-old Lord Rayner. Andrew Lusher and Don Trugman have both made their names in such newly-important areas for M and S as menswear and new product development.

But the surprise among the new men is Keith Oates who was headhunted as finance director because of his wide expertise in handling the international currency markets.

Oates is currently the finance vice-president of Thyssen-Bornemisza, an international industrial holding company. His appointment for Marks in that he comes from totally outside the company's sphere of operations. The usual route to one of the plum jobs in British commerce normally comes via a family involvement, or after many years seasoning as a senior executive.

Lord Sieff will become president of the company and will remain a working director. He tells me that he plans a more active role in the House of Lords as well as campaigning more vigorously to persuade British retailers and manufacturers to meet more of consumer demand from within

Britain. M and S, under Lord Sieff's leadership, has established itself as one of the main champions of British-made goods.

### On camera

Goldcrest Films at Television, symbol of the revival in the British film industry, has chosen an American, Sandy Lieberman, to be its chief of production. "But he's a very anglicised American," insists chairman and chief executive James Lee. Lieberman is a former president of worldwide production at Twentieth Century-Fox, and at present, vice-president, international, for the Ladd Company. He first came to London from Hollywood in 1965 to take charge of the UK and European operations of a U.S. talent agency, representing such clients as Peter Sellers and the Rolling Stones.

Three years later, he founded his own production company, Goodtimes Enterprises. And the following year he brought David Puttnam in as a partner. Together they produced over 15 films including Bugsy Malone, That'll Be The Day, Starman and Brother Can You Spare A Dime.

Lieberman, aged 46, was also involved in the backing and distribution of Puttnam's *Chariots of Fire*, and as he takes charge of Goldcrest's development of film and television programmes, will renew the hitherto successful relationship.

Puttnam's production of *The Killing Fields* is near completion after 16 weeks' shooting in Thailand, the U.S., and Canada. Another of his films, *CAL* has just finished shooting in Ireland.

and a major film is being planned to be produced and directed by Sir Richard Attenborough, creator of Gandhi. Lieberman's biggest money-spinner so far.

### Credit rating

The Washington-based Institute of International Finance—the bankers' monitor of performance in debtor countries—is about to get a German heavyweight as its deputy managing director. He is Horst Schulmann, aged 50, economic policy adviser to Helmut Schmidt during his years as German Chancellor.

As Schmidt's personal "sherpa," Schulmann helped prepare the ground for Western economic summit conferences for five years. He also played a big hand in putting together the European Monetary System in 1978.

Schulmann is no stranger to Washington. He was employed there by another "workaholic" boss, Robert McNamara, then head of the World Bank. Andre de Larosiere, of France, already named managing director of the IIF. Both formally take up their jobs in the new year when this initiative by the private banking sector will finally get under way.

It is more than two years since a group of banks began to discuss the creation of a body which would provide them with better information about the economic state of the world's debtor countries. Many leading banks have since joined in—but there are still some notable absences. One is Deutsche Bank, the biggest in Germany. Schulmann is a persuasive man, perhaps he will tempt his cautious countrymen to join.

### Hanson's trust

Hanson Trust, the acquisitive industrial holding company

which slapped in a £170m bid for London Brick last week, has never disguised its admiration for Mrs Thatcher and all she stands for. If anything, the praise in this year's annual report is more fulsome than ever.

"The overwhelming vote cast by the people of Britain in the 1983 general election in favour of clear leadership, determined resistance to inflation, return of freedom to the individual and the policy of shrinking the bureaucratic state, was a watershed for the UK," gushes Lord Hanson in his chairman's statement.

As usual, shareholders are treated to a newspaper cutting, lauding the virtues of Conservative philosophy. This year Hanson includes an article from the Daily Mail which proclaims that the Prime Minister's strength is her ordinariness. The report and accounts also disclose that Hanson is prepared to put its money where its mouth is. Last year its contribution to Conservative Party funds doubled to £50,000.

The company has every reason to be satisfied with the current political environment. Since 1980, its earnings per share have more than doubled. And Lord Hanson himself has little reason to complain. Yesterday afternoon, as he was delivering his maiden speech in the House of Lords, it emerged that his salary shot up from £87,000 to £140,000 in the year to September.

### Cut prices

Poor surgeons can no longer blame their tools. The magazine *Hospital Doctor* has some useful Christmas gift ideas in its latest discount shopping list. It offers hand saws in six sizes, and planes capable of providing "a precise and regular cut, and superb surface finish."

## Observer

# Abbey National have a haven for roll-up money.

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## BRITAIN'S ENGINEERING INDUSTRY

## The TI barometer swings back

By Ian Rodger

MR RONNIE UTIGER, whose nomination as the next chairman of TI was announced yesterday, will take over just as the group appears to be regaining its position as a leader of Britain's engineering industry.

TI, formerly Tube Investments, is one of a handful of large engineering companies, including Guest Keen and Nettlefolds, Vickers and John Brown, that in the past always had a special position as a barometer of the country's industrial health.

All have suffered major reverses in the past four years. All are now at various stages of recovery. And all have had to restructure their operations in the battle to survive in an increasingly hostile climate.

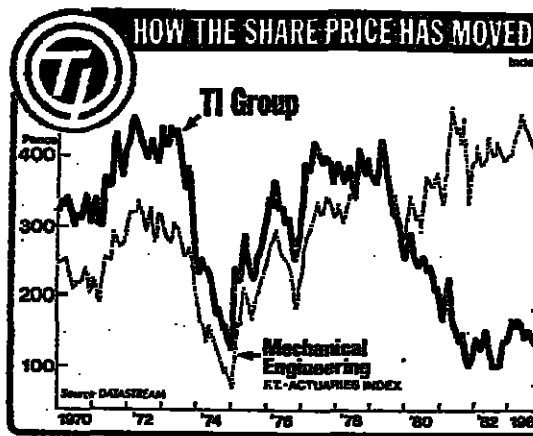
TI for example, has withdrawn from most of its traditional "metal-bashing" businesses and is going instead for strong international positions in a few specialised engineering "niches."

It restored the competitiveness of its big domestic appliance business and is well on the way to doing the same at its Raleigh bicycle subsidiary. Investment in plant and product overhauls has been massive.

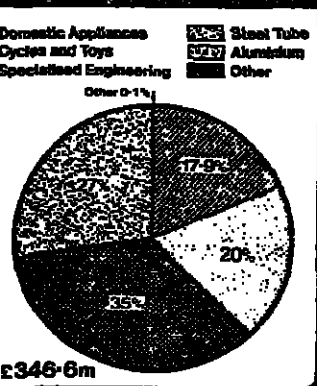
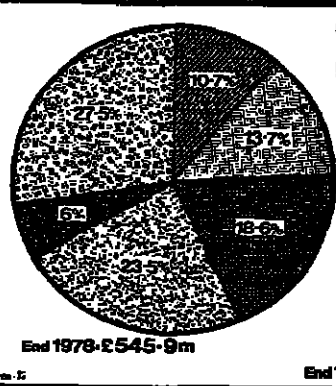
It built up its presence in the stable, but highly competitive, markets of the U.S. and Western Europe while reducing its interests in the former colonies and other less promising markets. Europe and the U.S. now account for about two-thirds of TI's overseas sales, compared with roughly one-third in 1975.

Yet for all this, TI still lacks a clear identity. Sir Brian Kellert, the retiring chairman, says the group now "has a shape that should serve it well." But many analysts are still looking for the logic which links two large consumer product businesses with a handful of largely unrelated engineering activities.

TI has always had a rather amorphous shape. Founded in 1919 to consolidate a number of tube-making and tube-using companies, it expanded upstream in the 1950s into steel-making and downstream in the 1960s into bicycles. Along the way, it diversified into some capital goods fields, notably machine tools and electrical equipment, and into domestic



CAPITAL EMPLOYED



the weld point neither more nor less strong than the rest of the ring.

TI's Reynolds subsidiary, best known for another specialised product—its high performance bicycle frame tubes—has long had a strong position in the ring business. With King Fifth, it was able to expand its U.S. presence, and the two together account for about half the world market.

Sales are depressed at about \$40m this year because of the slump in aircraft markets, but the business is nevertheless very profitable.

Another important niche business for TI is the manufacture of industrial gas cylinders. Again, considerable know-how is needed to make them, because of the danger of explosion. TI has long been a leader in Europe and invested \$20m in a greenfield plant in Oklahoma in 1977 to establish a U.S. market presence.

It now has a 25 per cent share in the U.S.

The group has also been developing two motor component specialities—seat slides and, as a result of a recent acquisition and joint venture with a Japanese company, suspension struts.

Even the group's tubemaking operations are beginning to look more like specialised niche businesses now that the UK stockholding companies have been sold and most of the seamless pipe side reduced to a minority stake in a joint venture with BSC.

What remains, apart from a successful, stand-alone business in Canada, are the specialised and profitable operations making high alloy tube for bearings and stainless steel tube for chemical plant, and the old, struggling welded and cold drawn seamless operations.

TI is still a very long way from its profit peak in 1978, but most of its businesses do appear to have considerable recovery potential. The management now has to show that the past of the last few years has sharpened up its responses and that TI can re-establish its position as one of the leaders in British engineering.

Considerable know-how is required, especially in making

appliances. In 1959, following a landmark bid battle, it acquired control of an integrated aluminium company, British Aluminium.

This evolution never had any apparent logic and some moves, such as that into machine tools, have never produced a useful return.

It was in the mid-1970s that it all began to go wrong. The post-1973 oil crisis slump undercut the company's plan to repair its balance sheet following a spending spree. A rights issue raised \$13.8m in 1975, but, to the dismay of the City, TI came back two years later with a call for another \$38m.

Doubts about the group were soon reflected in the share price, which had previously moved roughly in line with the FT-Actuaries mechanical engineering index—as a good barometer should. The shares began to underperform.

It was an inauspicious start for Sir Brian Kellert, the shy mathematician who had succeeded Lord Plowden in 1976 as chairman. But much worse was to come.

In 1979, Raleigh's market bases in Britain, the U.S. and Nigeria crumbled. In 1981, the slump in steel demand and prices forced TI to sell its 50 per cent stake in Round Oak Steel Works. In the same year, the Invergoron aluminium smelter had to be closed, and last year TI disposed of British Aluminium altogether, once one of its great hopes for the future. Meanwhile, the full weight of the recession was

concentrated on the engineering business.

From peak profits of \$80m pre-tax in 1978, the group tumbled into a \$23.1m loss in 1981. The 1981 dividend was less than a third of the 1979 payout; the market capitalisation of \$50m in late 1981 was only a third of the level when Sir Brian took the chair.

Sir Brian insists that TI was already planning to concentrate on higher value products when the sharp downturn in its fortunes occurred. But to many analysts it sometimes seemed otherwise.

Take aluminium, for example. In the late 1970s, the industry was booming. BA's contribution to TI profits jumped from \$1.6m in 1978 to \$11.7m in 1979. When the opportunity arose in 1979, TI raised its stake to 58 per cent and described aluminium as "a business area of major involvement for TI."

In fact, BA was in a perilously weak position compared to its multinational competitors and when the next slump hit the notoriously volatile aluminium market, the company became a crippling burden on TI. It was sold at a distress price and TI had to absorb more than \$50m in losses and write-offs in 1981 and 1982.

It is more difficult to be critical about the delays in running down the steel and steel tube operations. Given the crisis in the industry over the past few years, there have been no good opportunities for disposal. Also, the division was profitable until the second half of last year.

Meanwhile Raleigh was taking a long, costly time to sort out. When TI acquired it in 1960 Raleigh was the dominant force in the UK bicycle market with a 75 per cent share and a worldwide presence. But its share of the British market slid gradually over the next 20 years to 38 per cent.

The company had failed to respond to demand in the industrialised countries for sophisticated bicycles, and it remained too dependent on the sale of basic models to Third World users.

Raleigh is now in the midst of a three-year modernisation programme at Nottingham budgeted to cost \$15m, more than four times its depreciation rate. The product lines have been revamped and the emphasis on integrated production and assembly dropped.

Already, Raleigh's UK market share is back to 50 per cent, and 30 per cent of output goes to Western Europe. The programme is on target and the company will see "a little profit" next year, says Mr Michael Boughton, the TI director responsible for Raleigh.

Mr Boughton flatly denied that TI would sell Raleigh to a Japanese manufacturer. TI's prescription for Raleigh is a scaled-down version of the applied to the domestic appliance division 10 years ago, and the results there have been spectacular. Today, most products in the division retain large UK market shares, notably home heating and cooking products.

The growth prospects for domestic appliances may be

## Letters to the Editor

## British Airways and route licensing policy

From the Chairman, British Airways

Sir,—In an otherwise excellent appraisal in your columns of the proposed Civil Aviation Authority examination of route licensing policy (December 14), some commentators perpetuate the myth that should British Airways be privatised it would be given an unfair advantage over its competitors. This view arises from two basic misconceptions.

First, if British Airways is privatised, then it would seem more likely—not less—that its policies will be influenced by the harsh realities of the international airline business and by the investment expectations

of both institutional and private shareholders. Their stewardship is both rigorous and demanding.

Second, it arises from the view that British Airways has a monopoly. British Airways' share of total international scheduled movements at Heathrow is about 37 per cent and of total international passengers about 41 per cent. Although one could argue that British Airways has a substantial majority of scheduled operations by UK-owned airlines, if we include the important charter market, the total is less than 64 per cent. This can hardly be viewed as a monopolistic situation.

It is the task of British Airways management to continue to improve the profitability of this important state enterprise in the interests of passengers, employees and our shareholders. Our sole shareholder, the Government, has indicated its intention to dispose of its investment early in 1985. It is now a matter for it to decide upon the method and timing of the sale. In the meantime, as professional managers, we must continue to strive to enhance further the performance of the airline of which increasingly the nation can be proud.

Lord King,  
Cleveland House,  
St James's Square, SW1.

## Recognition of arts sponsors

From the General Manager, Public Affairs, Tescos

Sir,—We read (December 13) with interest Antony Thorncroft's article about arts sponsorship. Of special significance to us was the comment that ABSA's new director intends to do all he can in terms of persuading the media that it makes good sense to give more recognition to arts sponsors.

In common with many other supporters of the arts we have frequently suffered from reviewers totally ignoring our involvement when sometimes we were actually responsible for creating the event and making the occasion possible. This is in marked contrast to the generous and accepted coverage given to sports sponsors—which perhaps in some respects has even gone slightly over the top.

I do not think many arts sponsors wish to be seen buying their way into editorial columns by virtue of their endeavours. We certainly do not subscribe to such a notion. But it is unreasonable to hope for at least some recognition of arts backing at a time when the Government is doing all it can to persuade more of industry to shoulder the need?

I accept that arts reviewers should perceive their prime responsibility to be the reporting just of the arts content itself and I agree they would argue that those who made the review possible in the first place must merely stand gracefully in the wings catching what crumbs of approval may from time to time just fall their way.

Frankly, I think this is simply unrealistic and if the arts world is to continue benefiting from the wealth creating sector, I do believe the media generally could, with advantage all round, reconsider its current stance towards the reporting of genuinely worthwhile pieces of arts sponsorship. I simply do not accept that any writer or publication is in any sense prostituting his, her, or its integrity by so doing.

And as an assurance, I think it highly unlikely that any responsible arts sponsor today would on its part ever attempt to over-commercialise its name or involvement to the detriment of either a particular arts venture, or the audience enjoyment.

A. D. C. Turner,  
1 Knightsbridge Green, SW1.

## Noise from the motorway

From Mr F. Kirwan

Sir,—Mr Gifford (December 12) seems sadly unaware that "noise is not a determining factor in the choice of a particular route for a new road." At least not in Scotland. The quotation is part of the response of the Scottish Office to recent objections to the proposed route of the M80 at Stirling.

Those who wish to reduce the environmental impact of new motorways need to do more than merely ensure that the ribbed concrete surface of the Telford M84 is not replicated elsewhere; they need to change the ostrich-like attitude of the official planners epitomised in the above quotation.

Frank Kirwan,  
Mount Harriet Drive,  
Glasgow, Scotland.

## Advertising and the professions

From the Legal Adviser, Institute of Practitioners in Advertising

Sir,—I am not surprised that Mr Best of the British Legal Association (December 10) opposes our advocacy of advertising by individual solicitors. What does surprise me, is his suggestion that our arguments are motivated by the prospect of more work for our members. This could not be further from the truth, since very few solicitors are likely to engage the services of our member-advertising agencies. This is particularly so given that the recent relaxation of the Law Society's rules only permit solicitors to advertise once a week in local newspapers through "tombstone" advertise-

ments giving the most basic information about a solicitor and his practice.

Of course, we support Mr Best in his plea for increased corporate advertising for the solicitors' profession as a whole. Such advertising, however, cannot convey the reality of modern practice which is that solicitors are increasingly specialists rather than generalists. As the Royal Commission on Legal Services put it—"The increasing complexity of legislation and case law means that no solicitor can be competent in handling every kind of problem."

Advertising by individual solicitors is needed, therefore, so that the public can be made aware of this important trend and provided with the information necessary to make an informed choice of solicitor.

Philip J. Circus,  
44, Belgrave Square, SW1.

## The current EEC crisis

From Dr D. Harvey and K. Thomson

Sir,—It is irritating to see Mr Brittan (December 8) describing the Institute of Fiscal Studies calculation of the consumer and resource costs of the CAP as "novel" and "pioneering" when similar estimates have been made by various agricultural economists since at least Professor Josling in 1971. Our own estimates were published in 1981, complete with a full description of our methodology, and we continue to update and refine these calculations.

More disturbing is the question of whether these calculations are helpful in addressing the current EEC crisis. Britain is faced with a choice between demanding a purely financial settlement in return for a

higher VAT limit, and forcing major adjustments or reform of the CAP. The IFS calculations are irrelevant to a satisfactory budgetary settlement, and useful analysis of the reform option requires comparison of current patterns of costs and benefits with those of realistic alternative agricultural policies. The free trade option would mean an income loss per farm of around \$13,000 in the UK, against consumer/taxpayer gains of \$290 per household. Clearly compensation payments to producers would be required to make such a change acceptable within the Community. The basis of such compensation needs to be spelled out as a new and workable agricultural policy. Unless realistic alternative policies can be devised, a "successful" UK financial settlement will leave the CAP to go on much as before.

Dr D. R. Harvey,  
K. J. Thomson,  
Department of Agricultural Economics, The University,  
Newcastle upon Tyne.

## Represented without being taxed

From Mr J. Grint

Sir,—In your excellent leading article on the ratepayers' burden (December 16) you refer to the weakened accountability of councils for their rating levels. The position in some inner-city councils is even worse than you indicate.

A large majority of the voters are often direct net beneficiaries of the council, simply in terms of the subsidy of their housing costs by the state and by other local ratepayers, even before taking account of possible rate and rent rebates.

Representation without taxation.

John L. M. Grint,  
13 Rye Court,  
Surrey Road, SE24.

## Lombard

## More politics for London transport

By Hazel Duffy

THE HOLES in the Government's plans for transport in London are being shot through almost as vigorously by Tory members of the Greater London Council as by the Labour majority.

Under the London Regional Transport (LRT) Bill, which had its second reading last week, London Transport will be taken away from the GLC (which is itself due to be abolished). It will come under the LRT, the new holding company whose board will be appointed by the Transport Secretary, and it will be directly accountable to the Government.

GLC members, and many non-political bodies, are concerned that Londoners will have no democratic say in their transport as now (however remote). Central government will be levying a rate on the boroughs to provide up to two-thirds of the cost of supporting LRT, although it appears that the boroughs will not be allowed representatives on the board of LRT.

Taxation without representation is one of the more civilised cries heard in the confines of County Hall at present.

The Bill fails to answer many questions on the cost of supporting LRT. Where will the capital expenditure come from? Who will pay the interest charges, currently running at \$45m a year, on capital spending incurred in the past by the GLC on LRT? How much financial support does the Government envisage as acceptable?

The GLC is already subsidising LRT from the rates to the tune of about \$80m over the level which the Government deems acceptable, and the transport supplementary grant paid to the GLC (which includes capital and current spending on roads as well as public transport) has been cut by about one-third for 1984-85. Yet Mr Nicholas Ridley, Transport Secretary, says he wants fares to be increased only by the equivalent of the inflation rate, and to maintain the present Travelcard

and zoning system—indeed, he knows it would be politically very unpopular to do otherwise.

More frustrating for London commuters is the fact that the Government has sidestepped the opportunity presented by change to work towards co-ordinating LRT and British Rail commuter services, so as to avoid duplication of services, fare changes at different times, and fare levels which are out of step with each other.

When almost every other major European city, and many provincial cities, have managed to co-ordinate their different transport modes for years, why is the Government merely legislating for reserve powers to bring BR's commuter operations within LRT? The provision for "liaison" between the two operators has been rightly criticised as simply paying lip service to the problem.

Mr Ridley firmly believes that competition is good for public transport, and a spur to promoting efficiency in LRT and BR. Nobody, not even within LRT, could argue against the scope for greater efficiency; but will fleets of minibuses, picking up and setting down passengers willy-nilly, do anything but add to the chaos of central London traffic, which is the greatest barrier to the efficient operation of buses?

Public transport cannot be run in isolation from other aspects of transport—the car is the greatest competitor to any mode of public transport—yet the LRT Bill, and the White Paper which preceded it, are exceptionally vague about who will be responsible for the co-ordination of traffic control and roads policy, when the GLC is abolished.

Transport in London is consistently being compared unfavourably with transport in other European cities—a point which the Government accepts. The solution, says the Government, is to take it out of the political arena. Its proposals, however, suggest that in its haste to hit back at the GLC, the Government is making a political scapegoat of LRT every bit as much as Mr Ken Livingstone did with his original cheap fares exercise.

Of course I'm sure, I read it in Business Week.

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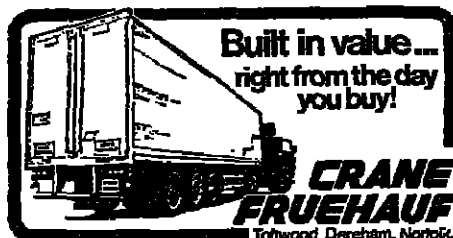
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## PARTY CHIEFS ATTACK JOB LOSSES AS TALBOT DISPUTE CONTINUES

## French employers under fire

BY DAVID MARSH IN PARIS

TENSION in France over job losses within industry was heightened yesterday. Leaders of the Socialist and Communist parties, which form the governing coalition, stepped up their verbal attacks on company bosses, as the Peugeot-Talbot car plant at Poissy, near Paris, remained closed by a 10-day labour stoppage.

M. Georges Marchais, the Communist Party leader, launched a fierce broadside against the Peugeot-Talbot car plant at Poissy, near Paris, remained closed by a 10-day labour stoppage.

M. Marchais's attack came after a 90-minute meeting with M. Laurent Fabius, the Industry Minister. The Communist leader had previously accused the minister of taking too favourable a line towards profit oriented business and of promoting

rather than hindering job losses in sectors such as steel, metalworking, coal and shipbuilding.

After the meeting, which he described as "positive", M. Marchais carefully avoided aiming fresh barbs at the Government, although it was by no means clear whether he and M. Fabius had buried the hatchet.

M. Marchais at least secured agreement on setting up government study groups to examine the decline in the ball-bearing industry, and the layoff plans of companies in the Paris region.

In another side-swipe at industry bosses, M. Lionel Jospin, the first secretary of the Socialist Party, declared that the redundancies at Peugeot's Poissy factory were not the fault of the Government but had been caused by "management errors of a private group."

At Poissy yesterday, shop-floor leaders of the Communist-dominated CGT trade union rallied workers to continue the strike.

They blamed Peugeot for refusing to negotiate better retraining schemes for the 1,900 employees being made redundant. Peugeot said



M. Georges Marchais: fierce broadside

the company would remain closed until at least January 2.

The Peugeot controversy has been accompanied by a wave of trade union discontent throughout France over closures and redundancy plans forecast for 1984 across a swathe of traditional manufacturing and mining industries.

In a reference to the Talbot plant layoff figure - reduced over the weekend from the original total of 2,900 after the Government-inspired compromise - M. Jospin said that under a Government of the Right, "probably 4,000 workers would be put on the street."

This sharpening of invective by party leaders and trade unionists follows a string of redundancies across the country in recent months. The Socialist-supporting CFDT union estimates that 100,000 more jobs will be lost in the metal industry next year, while the government statistics institute Insee yesterday forecast a fall of 200,000 in industrial employment between June 1983 and June 1984.

Overshadowed by the Peugeot-Talbot issue, a number of other labour conflicts remained on the boil yesterday. Six hundred workers at the Motobecane cycles plant at Saint Quentin in North-East France blocked the Paris to Brussels train to protest at plans for 420 layoffs.

Car workers dig in their heels. Page 2. France may push inflation below 6%, Page 2.

## EEC set to approve budget despite protests

By John Wyles in Brussels

MR PETER DANKERT, president of the European Parliament, is expected today to adopt the EEC's 1984 budget, including the freeing of rebates for the UK and West Germany, despite protests from EEC foreign ministers that the parliament is exceeding its powers.

In a letter to Mr Dankert, the ministers emphasised their disapproval of two main elements in the Ecu 25.36bn (\$29.8bn) budget voted by the parliament in Strasbourg on Thursday. However, under procedures that many governments find increasingly unsatisfactory, they are powerless to prevent the budget's adoption once Mr Dankert signs it today.

The authors of the Treaty of Rome, which set up the EEC, were seeking a system in which many of the powers over the budget's final contents were shared between the parliament and the EEC Council of Ministers. They hoped that once all procedures were exhausted, those two halves of the so-called "budgetary authority" would be in full agreement.

This year, however, as in three of the last four years, the council and the parliament have been in dispute and the parliament has exploited its power of last word.

Although France, the UK and West Germany felt strongly yesterday about the parliament's wilful disregard of the council's wishes, none was prepared to announce any measures that might disrupt the execution of the 1984 budget by the European Commission.

Member states could, for example, withhold some of their payments to Brussels on the grounds that the parliament's final spending total is about \$115m more than the council thinks it should be. France, Belgium and West Germany did that for a couple of months in 1981 in protest at the parliament's budget.

Governments could also try to launch a case against the parliament at the European Court. That possibility might be discussed in January.

Ministers had some difficulty in agreeing the text of their letter, which Mr Dankert might feel is no more than a gentle slap on the wrist. While reserving the right to take court action, the letter complained that budgetary procedures had not been completed because:

● The parliament was not entitled to add Ecu 132m to next year's spending plans without council approval, nor could it designate another Ecu 600m for industrial policy spending in future years when the council had not yet adopted any definite spending policies for this area.

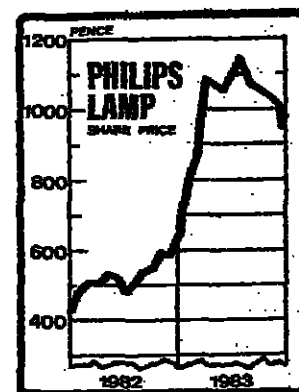
● The parliament's placing of Ecu 1.2bn of budget rebates in reserve for the UK and West Germany was an impermissible unilateral reclassification of spending.

Sir Geoffrey Howe, the British Foreign Secretary, said last night that the council believed that the parliament was behaving "unacceptably on basic points of principle."

The freezing of the budget rebates for the UK and West Germany was an attempt to fix blame for the outcome of the Athens summit which was "manifestly wrong because blame cannot be laid at our door."

## THE LEX COLUMN

## A video game from Philips



Philips has waited years to announce a deal giving it control of Grundig in West Germany, so presumably the management felt it prudent last Friday to wait just a few weeks longer for the final details to be negotiated. Alas, the cat jumped out on Friday evening, having sat quietly in the bag throughout a meeting hours earlier between senior management and brokers' analysts. Now the deal is official, though few details are yet available.

Any embarrassment on this front, however, pales by comparison with Philips' growing headache over what to do with its V2000 inventories, and a new relationship with Grundig seems bound to be judged first in this narrow context.

Grundig has been making the V2000 under licence since 1979 but moved earlier this year, like the Dutch group itself, to capture a share of the far more successful VHS market. One explanation being mooted yesterday for the timing of the current talks is that Philips might be anxious to forestall any developments threatening to take Grundig out of the V2000 altogether, robbing Philips of its marketing ally at a critical juncture.

If so, Philips' strategy has a defensive aspect which might suggest a renewed commitment to the V2000 but which in fact leaves the whole future of that system still open to doubt. Control of Grundig may give Philips access to superior marketing in the short term, offering some reassurance to V2000 software manufacturers; but it could also face the group with a heavier financial exposure to the V2000 in the longer term, which must be looking increasingly unattractive.

Happily, the more positive aspects of the deal look very much less equivocal for Philips. Apart from its marketing skills and quality image - particularly useful, perhaps, in the launch of Philips 8mm video - Grundig will provide Philips with a home electronics base in West Germany to set beside Bauknecht and PKI, its recently acquired white goods and telecommunications subsidiaries in that market.

The latest figures from Philips show it with 22 per cent of its employees and 24 per cent of its assets in the Netherlands against 8.6 per cent of its sales. The key to its present growth, and to its stance as EEC champion against Far Eastern competition, must be to align the location of assets and sales more closely - hence the expansion in Germany.

Sony

After a year of running repairs in the lay-by, Sony is venturing cautiously down the inner lane, with a sharp recovery in profits in the final quarter to October. A programme of stock reorganisation

and reduction, along with production cost cuts, have helped boost net income for the group to ¥12.7bn, against ¥2.5bn in the comparable quarter of 1982 and ¥8.5bn in the preceding three months of 1983.

The current year should see profit of about ¥30bn, against ¥20.5bn. VCR volume is now rising, while margins here are looking better. The latest generation of Walkman should allow profits to be at least held in this division and the digital audio disc will start to make an impact as significant programme material becomes available. Even the U.S. Olympics conspiracy in favour of the company's television sales.

The share price has fallen through the year and now lags other electrical stocks significantly. The prospective jump in profits may be reflected in the performance of the share price, but investors remain uncertain whether there will be room for Sony's beta video format in the light of the VHS standard.

## Norcross

In making its offer for UBM earlier this year, the Norcross management was motivated partly by the desire to focus attention on the company's neglected and undervalued equity. In this, at least, the abortive bid appears to have succeeded, though perhaps not quite in the way Norcross envisaged. Speculation that Norcross itself might be a target had helped to lift the shares to a year's peak of 157p last week.

Yesterday's statement covering the six months to September showed pre-tax profits rising 11 per cent to £13.9m. Predictable difficulties in Nigeria have roughly halved the international contribution, but elsewhere the machine is running smoothly. The shares, however, slipped back to 143p, equivalent to 7.8 times this year's forecast earnings.

The market is evidently unsettled by the future of the 30 per cent holding in UBM, which is covering its funding costs after tax but will lift net debt to almost 50 per cent of shareholders' funds at the year end. If Norcross felt hamstrung by this investment, it could sell out at little capital loss, but there is no evidence to date that it has lost its appetite for the fight.

Sony

After a year of running repairs in the lay-by, Sony is venturing cautiously down the inner lane, with a sharp recovery in profits in the final quarter to October. A programme of stock reorganisation

## Fall in £ 'will not alter UK policy'

By Philip Stephens in London

THE SURGE in the value of the dollar will not deflect the British Government from its view that there should be no firm target for sterling's exchange rate, Mr Nigel Lawson, Chancellor of the Exchequer, said yesterday.

Mr Lawson said Treasury officials would continue to take sterling's value into account when assessing underlying monetary conditions.

But the actual exchange rate against other major currencies would be left to market forces, with the authorities intervening only to smooth out violent fluctuations.

"We do not have a target but we are not indifferent," Mr Lawson told a House of Commons committee in response to persistent questioning from Labour Member of Parliament Mr Austin Mitchell.

"I don't believe there is any halfway house between the sort of policy we have and a fixed exchange rate," Mr Lawson told the committee.

The pound's recent slide against the U.S. currency reflected "the strength of the dollar, not the weakness of sterling," he said, adding that the pound's trade-weighted index had been remarkably stable since January.

The Bank of England has intervened regularly on foreign exchange markets in recent months, but the authorities have insisted that these are smoothing operations, designed only to calm disorderly markets.

Independent economic forecasters, however, have said any dramatic fall in the value of sterling could put the Government's 4.5 per cent inflation target for the end of 1984 completely out of reach.

Mr Lawson, who faced close questioning from the mixed-party committee on the present overrun in Government borrowing, said the £3bn (\$11.4bn) forecast for next year's public sector borrowing requirement (PSBR) was only an indicative figure.

The actual level, to be fixed in next year's budget, would be consistent with the Government's aim of reducing the PSBR as a proportion of gross domestic product.

"The presumption is that it will be in the region of £3bn, but it may well not be that figure."

Mr Lawson rejected suggestion that sales of state industries should not be used to show a smaller PSBR. He emphasised that the Treasury was making strong efforts to tackle public spending, but said asset sales sold logically be counted against government outlays.

## London police run 24-hour operation against terrorism

BY OUR PARLIAMENTARY STAFF IN LONDON

MR LEON BRITTON, the UK Home Secretary, yesterday announced a massive anti-terrorist operation in London in the aftermath of the Provisional IRA car bomb on Saturday. The bomb exploded among Christmas shoppers outside Harrods, the Knightsbridge department store, killing five people and injuring 91.

More than 700 extra police have been drafted into the capital and special squads will mount a 24-hour watch to try to prevent any further terrorist attacks. Mr Britton appealed for public vigilance which he said was essential to back the police effort.

The Home Secretary dismissed an IRA statement which said the car bomb attack had not been authorised. The statement was "utterly contemptible," he said. "Those who place a bomb of this size in a street crowded with Christmas shoppers cannot evade responsibility in that way."

Mr Britton told the sombre and crowded House of Commons: "Those who perpetrated this crime have learned that their action has

in no way weakened the unshakable resolve of Government and public alike that violence will not secure its objectives."

He added: "Indeed, if anything, an outrage of this kind makes our resolution and determination stronger than ever."

Mr Gerald Kaufman, Labour's Shadow Home Secretary, said Parliament would be reflecting the views of the entire nation by making it clear that there would be "no concessions to the bullet and the bomb."

The most poignant denunciation of the IRA came from Mr John Hume, the Social Democratic and Labour Party MP, who said, "As an Irishman standing in this House I am ashamed."

He believed Irish people everywhere would feel a sense of shame that anyone in the name of Ireland could commit such an atrocity.

Mr Hume said: "If those who planted that bomb are Irish patriots, if those who provided them with the equipment and the plan are Irish patriots, if those who are members of the same movement

are Irish patriots, then God save Ireland."

Sir Hugh Fraser, a Conservative MP, who survived an assassination attempt by the IRA, pressed for an assurance that any talks with either the military or political wings of the Provisionals in Northern Ireland would cease.

The Home Secretary replied: "No such talks are taking place and no such talks will take place."

Mr Britton confirmed that the Cabinet was considering whether to outlaw Sinn Féin, which is widely regarded as the political wing of the IRA. He said he would not wish to take any action which would lead to an escalation of violence. "There are two legitimate views as to the wisdom or otherwise of proscribing Sinn Féin."

In the House of Lords, Lord Fitt, who as Mr Gerry Fitt sat as MP for West Belfast and once led the mainly Catholic Social Democratic and Labour Party, called for a ban on Provisional Sinn Féin.

In Dublin today, the Irish Cabinet will consider whether Sinn Féin should be banned.

## U.S. envoy visits Iraq

BY REGINALD DALE IN WASHINGTON

MR DONALD RUMSFELD, the special U.S. Middle East envoy, paid an unexpected visit to Iraq yesterday in a move that the State Department said was intended to gather support for restoring peace to Lebanon.

U.S. officials in Washington emphasised that his visit to Baghdad had nothing to do with Iraq's war with Iran and did not constitute any "tilt" towards Baghdad in the conflict.

Mr Rumsfeld's trip nevertheless came as a surprise, given that no U.S. official of equivalent rank has visited Baghdad for 16 years. Iraq broke off diplomatic relations with the U.S. after the 1967 Arab-Israeli

war, accusing Washington of assisting Israel.

Mr Rumsfeld's visit was seen by Middle East analysts as likely to be highly provocative to Iraq's enemy, Syria, with which the U.S. is continuing to clash militarily in Lebanon.

U.S. officials said Mr Rumsfeld was "trying to bring everyone on board" in promoting the process of national reconciliation in Lebanon. They said Iraq still had some influence over Shia Moslem and Palestinian groups in Lebanon, although Iraqi aid to the groups had dwindled since the outbreak of the Iraq-Iran war.

Iraq's views also had some weight with other Arab countries in the

overall attempt to bring a wider peace to the Middle East, the State Department said. Because Iraq needed the support of the other Arab countries in its war with Iran, it also felt the need to pay more attention to the views of moderate Arab statesmen, such as King Hussein of Jordan and the leaders of Saudi Arabia, U.S. officials said.

They emphasised, however, that Iraq's influence was not seen as the determining element in the Lebanese peace process and that Baghdad should not be regarded as the key to a Lebanese solution. Mr Rumsfeld was simply looking for every bit of help where he could find it, they said.

## Grundig plan likely to get go-ahead

Continued from Page 1

Although the final shape of the syndicate is apparently far from clear, Dutch banks, led by Amsterdam Rotterdam Bank (Amro), are thought to be involved but are obliged under central bank regulations to keep any industrial holding under 5 per cent of a company's total equity and to limit any such investment to a very low proportion of their own resources.

Union Bank of Switzerland, which is also associated with Grundig, said yesterday that it would

take no share stake in the company, either directly or through a bank consortium, but might assist Philips in financing its moves.

Under the plan, Dr Grundig will step back from management but will continue to be available to advise on future product development. Dr Grundig's family trust will yield part of its controlling influence in Grundig Electro-Mechanische Versuchsanstalt Max Grundig & Co (Grundig EMV), which is virtually a holding company for the group's manufacturing interests.

Instead, a new company formed by Philips and a consortium of European banks will take control of Grundig EMV. Philips intends to continue Grundig's operations as an independent concern.

Grundig made a profit of DM 104m (\$38.5m) in the year to last March, after two years of losses. Sales revenue was 6.8 per cent higher at DM 3.06bn.

The company said yesterday that it aimed to increase sales revenue considerably this financial year, possibly to DM 3.5bn.

## Setback for Nakasone

Continued from Page 1

sign from the Diet precipitated the chain of events that led to an election that Mr Nakasone would have preferred to have delayed.

Japanese financial markets reacted with horror as the extent of the LDP's losses became known, though recovery set in later in the day. The Nikkei Dow share index, off nearly 200 points yesterday morning, closed at 9,464.17, down only 61.47 points on the day.

## Yugoslavs order new Airbus

Continued from Page 1

craft (25 orders and 25 options from Air France; 10 orders and 10 options from Air Inter; seven orders and three options from British Caledonian; and five orders and three options from Inex-Adria).

That is regarded by Airbus Industrie as an adequate customer base on which formally to launch the venture, with or without British Aerospace participation.

M. Lathiere has said in the past that the venture is "oversubscribed" with potential partners, including Australia, Canada and Japan, as well as the UK aerospace industries in the UK, France, West Germany,

Spain, the Netherlands and Belgium.

Mr Lathiere said that the Inex-Adria order provided a "launch customer" base for the A-320 greater than that for the earlier A-310.

The Inex-Adria order "provided further evidence from the marketplace that the A-320 is the right aircraft at the right time."

British Caledonian, which has also ordered the smaller A-320, has signed an engineering support contract covering all its Airbus types with the French company Sogerma (Société Girondine d'Entretien et de Réparation de Matériel Aéronautique).

James Buchanan in Bonn writes: Messerschmitt-Bölkow-Blohm (MBB), West Germany's leading aerospace and armaments concern, expects sales revenue this year to be up 5.8 per cent to nearly DM 6bn (\$2.16bn) after a "generally successful year," according to Dr Hanns Arndt Vogels, chief executive.

Although the group is continuing to cut its workforce, with another 1,400 of the 37,100 jobs to go next year, a series of important recent decisions in the military and space sectors should help to plug the order gap expected with the running down of the Tornado programme and the weak demand for Airbus.

## World Weather

Location	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud
Amsterdam	14	14	14	14	14	14	14	14	14
Berlin	12	12	12	12	12	12	12	12	12
Brussels	11	11	11	11	11	11	11	11	11
Frankfurt	10	10	10	10	10	10	10	10	10
London	9	9	9	9	9	9	9	9	9
Paris	8	8	8	8	8	8	8	8	8
Rome	7	7	7	7	7	7	7	7	7
Stockholm	6	6	6	6	6	6	6	6	6
Warsaw	5	5	5	5	5	5	5	5	5
Zurich	4	4	4	4	4	4	4	4	4

Readings at mid-day yesterday.  
 0-Cloudy 1-Drizzle 2-Fair 3-Fog 4-Hail 5-Rain  
 6-Snow 7-Storm 8-Snow 9-Thunder

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BNP Group Head Office:  
 16 Boulevard des Italiens, 75009 Paris

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## SECTION II - INTERNATIONAL COMPANIES

# FINANCIAL TIMES

Tuesday December 20 1983

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## VW forecasts return to profits next year

By John Davies in Frankfurt

VOLKSWAGEN, the West German motor vehicle manufacturer, expects to reach a turning point in its results next year, after two years of heavy losses.

The Wolfsburg-based group expects its worldwide loss this year to be about the same as last year's DM 300m (\$108.8m) deficit.

In a preliminary statement, VW said yesterday that results this year were depressed by further losses in Latin America, as well as by the cost of launching the new Golf model in West Germany. Triumph-Adler, its office equipment subsidiary, was also making a loss, although much less than last year.

Those burdens outweighed profits in other areas including Audi sales and U.S. operations.

But VW said it was counting next year on a turnaround towards profitability. It expected to begin benefiting from rationalisation at factories in West Germany and abroad, as well as good profits from its new Golf and Audi models.

A few weeks ago, VW reported a hefty DM 247m loss for the first nine months of this year, up DM 100m on the loss suffered at the same stage last year.

But the company has been at pains to indicate that recovery plans are broadly on course.

Dr Carl Hahn, the VW chief executive, said earlier this year that efforts being made to ensure a sound future for VW were unlikely



Dr Carl Hahn

to be reflected in earnings until next year at the earliest.

VW expects group worldwide sales this year to show an 8 per cent rise to about DM 48bn, with the parent company's revenues up nearly 10 per cent to about DM 30bn.

Sales of VW and Audi models this year are expected to reach last year's level of 2.12m.

VW believes it will boost car sales next year as most markets continue to pick up, although the economic difficulties of Latin America remain a worry.

The group has received strong impetus from the recovery of sales in West Germany, with nearly 740,000 VW and Audi models being delivered this year, about 10 per cent more than last year.

VW said sales of the new Golf, which replaced the previous model in September, were exceeding the company's expectations.

The group's total share of the West German car market has slipped from 28.8 per cent to 28 per cent, but the Audi models have lifted their share from 5.9 to 7.2 per cent.

In Mexico, VW's deliveries have fallen by nearly half to 70,000 because of economic cutbacks. In Argentina, sales have risen about 28 per cent to 19,000, but are still far below what VW regards as normal.

Despite setbacks on the Brazilian market, sales from the local operation are expected to exceed last year's 300,000 because of increased exports.

Meanwhile, VW says it is not aware of any plan for Kuwait to increase its 10 per cent stake in VW's Brazilian subsidiary. Nor was there any plan in the foreseeable future for a Kuwaiti to join the board of the Brazilian operation.

Kuwait also has a minority stake in the parent company, although the exact extent has never been disclosed.

## Tymshare rejects McDonnell takeover

By Paul Taylor in New York

TYMSHARE, the California-based data transmission group, yesterday pulled out of a \$372m cash deal to be acquired by McDonnell Douglas, the U.S. aerospace and defence group.

The surprise announcement came just three days after McDonnell Douglas announced it is to acquire Hughes Helicopter for \$470m and only days before the definitive agreement to acquire Tymshare for \$31 a share was due to be announced.

Neither company would comment yesterday on the reasons for the dramatic about-face. However, one factor may have been Wall Street's relative hostility to the Tymshare deal.

McDonnell Douglas had announced its plans to acquire Tymshare on November 28. The main attraction of the deal to the aircraft maker appeared to be Tymshare's Tymnet data communications service which allows computers to "talk" to each other using a data network.

Tymnet is the second largest service of its type after GTE's Telenet and would have represented a major addition to McDonnell's McDonnell Douglas Automation (McAuto) computer service operations.

However, Wall Street was sceptical from the start about the deal, pointing out that Tymshare, with revenues of \$297m last year, lost \$2.2m in the latest quarter and lacked focus and management flair.

As a result McDonnell's stock fell \$2.88 a share to \$35.50 following the announcement.

The aerospace group said it did not think its planned acquisition of Hughes Helicopter "was a factor in the termination."

## Profits plunge at major U.S. cable TV group

By our New York Staff

GENERAL INSTRUMENT, the major U.S. cable TV, direct broadcast satellite service (DBS) and micro-electronics equipment manufacturer, yesterday reported a continuing sharp plunge in profits. The company's fiscal third quarter earnings dropped by 79 per cent.

General Instrument said in the quarter ending November 27 it had net earnings of \$5.3m or 17 cents a share compared to \$24.5m or 81 cents a share in the same period last year on sales which fell from \$234m to \$227.7m.

It blamed the sharp decline on lower margins in the cable TV equipment business, start-up costs for new processes in the microelectronics division and reduced demand from video game and home computer makers.

The earnings slide continues a trend apparent over the last three quarters, which principally reflects difficulties in two of General Instrument's major markets, cable TV construction and the shake out in the video games and home computer industries.

The latest results mean General Instrument's net earnings for the first three quarters of its fiscal year have fallen by 64 per cent to \$38.6m of 92 cents a share from \$78.6m or \$2.58 a share on revenues of \$661m compared to \$749.6m.

General Instrument said the order backlog at the end of the quarter was \$1.41bn compared to \$748.4m a year earlier. The latest total includes over \$500m in orders for satellite earth station electronics.

## Cable group in films deal

By Paul Taylor in New York

SHOWTIME - the Movie Channel, the joint venture cable television service formed recently through the merger of Showtime and the Movie Channel, has agreed to pay Paramount Pictures, around \$500m over the next five years for exclusive rights to the studio's films.

The deal, details of which have not been made public, is the largest exclusive contract between cable television and a film studio.

Home Box Office, the Time Inc. subsidiary which is the premium channel market leader with 15m subscribers, has a five year contract worth a similar sum with Coca-Cola's Columbia Pictures subsidiary, as the contract only provides for four exclusive films a year.

The deal between Showtime - the Movie Channel and Paramount, follows weeks of negotiations and is seen as one of the major results of the recent merger of Showtime, owned by Viacom International, and the Movie Channel.

Walter Ellis and John Davies profile the men behind the Philips - Grundig link

## A two-man electronics show

DR WISSE DEKKER, president of Philips, the Dutch electrical group, shares with Dr Max Grundig an untiring willingness to work and to transform his company for the better at a time of intense international competition in the electronics field. But they differ in one important respect. Dr Dekker is the first head of his company not to be a member of the Philips family, while Dr Grundig is the founder and currently major shareholder in the German consumer electronics venture.

Both realise the necessity for Grundig to become part of something larger, but for Philips it is simply good business. Sentiment is not involved.

Dr Dekker is a firm believer in the need for the European electronics industry to work together to hold off the advance of the Japanese giants. He is convinced that only Philips has the dimensions, the technology, the experience and the resources to rival JVC, Matsushita and the rest.

Other groups, such as Grundig, but also including Thomson-Brandt

of France, are seen by the Philips chief largely in terms of specific expertise and assembly capacity.

This required subordination of others has aroused some indignation in Europe. Thomson-Brandt, in particular, does not see itself as a satellite company, and a deal signed with JVC in April on the manufacture under licence of VHS-format video cassette recorders (VCRs) was widely seen as a slap in the face for the Dekker pan-European strategy.

Indeed, Philips' own more recent negotiation of a deal with the Japanese to make VHS machines for sale outside Europe is a measure of how urgent is the need to compete with both Japan and France in this area, even at the expense of Philips' own technology.

The V2000 video system, designed in Eindhoven and much admired for its high-resolution picture and reliability, had been intended as a world beater. Instead, it has been restricted to Europe, and even there it has to be helped by restrictions on the import of Japanese-built recorders.

It has been clear for several years that Philips has wanted to acquire a larger stake in Grundig, with which it co-operates in production of the V2000 range. Dr Dekker believes that, with the production capacity

of Grundig under Philips' control, it will be left to Eindhoven to decide on what machines it makes and where they will be sold.

The Philips boss had at one time hoped that something fruitful could be worked out with Thomson-Brandt, only to see the French group buy up control of Telefunken, another West German electronics group. At least now he has Grundig or should have on April 1 - and can begin to take stock of the whole V2000 experiment.

As for Dr Max Grundig, the lead actor in the Grundig-Philips drama, he is staying determinedly off stage as the business thriller heads towards its climax.

The 75-years-old founder of the German group is on holiday abroad at the time when agreement in principle has been disclosed to hand over management of his company to Philips.

Dr Grundig is reticent about how the arrangement with Philips will look and what it amounts to in money terms. His management representatives at Ffirth, near Nuremberg, are stressing that full details are still not clear but are likely to be settled "in the next few weeks".

Grundig has cut its workforce from 38,460 in 1979 to 29,900, but it remains under intense pressure in a fiercely price-competitive market.

Facing increasing challenge from Japanese rivals, Grundig slipped in to the red in 1980-81 to the tune of DM 187m (\$67.5m) and made a further DM35m loss in 1981-82, before staging a comeback with a DM 104m profit in the year to last March.

VCRC provided the fastest growth in sales revenue last financial year, contributing more than a quarter of revenue from the home market.

But both Grundig and Philips had to bow to Japanese provisos, by negotiating a licence to make Japanese-designed VHS VCRs in future, though for foreign markets.

The VHS-system has gained the lion's share of world sales.

Grundig embarked on a change in its marketing system earlier this year, declaring that retail outlets would be regarded as agents, so that prices could be fixed at profitable levels.

The cartel authorities frowned on the scheme, which also turned out to have financial drawbacks for the company itself. As a result Grundig abruptly abandoned the scheme, to the consternation of the retail trade.

To many in the trade, this exercise - with its abrupt change of tack - showed the need for a new approach to management at Grundig.

## KLK group buys more plantations

By Wong Sulong in Kuala Lumpur

KUALA LUMPUR-KEPONG, Malaysia's fourth largest plantation group, is buying a large plantation for 18m ringgits (\$82m).

The acquisition, in the east Malaysian state of Sabah, will increase its plantation acreage from 99,000 to 130,000 acres.

KLK said it would pay 182.5m ringgits to purchase the entire equity of Sri Kunak plantation (5,258 acres), Kulumpang Development Corporation (18,178 acres) and other 7,551 acres of estate land.

It will also pay 28.5m ringgits for an oil palm mill and a cocoa fermentation factory in 150 acres.

KLK said all the land was located on a contiguous block, about 62 km from Tawau on the Tawau-Semporna highway.

The plantations and oil palm mill are being sold by companies controlled by Tan Gek Poh.

KLK is controlled by Tan Sri Lee Loy Seng, the rubber tycoon, and the purchase reflects his view that commodity prices are on an upswing and that plantation land will become more expensive.

KLK said its investment in Development and Commercial Bank last year and used 37m ringgits to buy Batu Lintang estate.

It also paid 54.3m ringgits to Wardley Investment Services of Hong Kong to raise its stake in Highlands and Lowlands from 7 per cent to 26 per cent, making it the biggest single shareholder.

Highlands and Lowlands is the country's fourth biggest plantation group, with 72,000 acres.

## Buitoni talks with Poulain collapse

By Alan Friedman in Rome

INDUSTRIE Buitoni, Perugia (IBP), the leading Italian foods group which is 51 per cent owned by the Buitoni family, yesterday said its four-month long attempt to strike a deal with Poulain, the French confectionery manufacturer, had failed.

The Perugia-based company said last night that, contrary to earlier indications, Poulain would not be taking a stake in IBP. In September the group issued a statement saying it was in talks with Poulain designed to create "an alliance aimed at improving the competitiveness of

both partners and increasing their investment capability in Italy and abroad."

IBP, capitalised at L37.6bn (\$22.2m), is thought to be in search of investment capital. Poulain had been expected to take a shareholding in IBP and such was the uncertainty of the plan that IBP's unions demanded employment guarantees a few weeks ago.

IBP last night declined to explain why its proposed deal with Poulain had fallen through and would say only that it was now "reflecting on its future."

## Italian steel group in L9bn share placing

By our Rome Staff

DANIELI, the leading Italian maker of steel mini-mills which is prospering despite world recession in the steel industry, is going public on Thursday with a L9bn (\$6.4m) share offer on the Milan bourse. The offer, which is being led by Eurocombiare, the investment banking group, is underwritten by 15 banks including Banca Commerciale Italiana, Banco di Roma and Credito Italiano.

At present the Danieli family owns 74 per cent of the company while Schloemann-Siemag, the West German group, holds the next biggest stake at 18.5 per cent. After the 4m new shares are placed, at L2.250 each, about 20 per cent of the company will be held by the public, mostly institutional investors.

In the year to June 30, Danieli managed to go against the world steel industry's trend to raise profits by 44 per cent to L10.1bn, on turnover which was up by 16 per cent to L155.7bn. The company, based at Burtio, in north-east Italy, designs and builds steel mini-mills which are sold to the Soviet Union and the Eastern bloc as well as to a number of countries in Africa and the Far East.

The Danieli strategy is to try to fill a niche in the market for small, flexible and energy-efficient plants to replace the vast steel complexes of the past. Italy and the rest of Western Europe do not figure prominently in the Danieli order book, which last June stood at L180bn.

## Whittaker sued over lost Saudi contract

By Terry Byland in New York

A HEAVY fall in profits for the year to October 31 was announced yesterday by Whittaker, the Los Angeles health care group whose share price plummeted two weeks ago when it disclosed that Saudi Arabia had terminated a \$1.4bn hospital management contract with the company.

Net earnings dropped by 35 per cent to \$37.5m or \$2.55 a share for the year, although sales held steady at \$1.68bn. The final quarter, however, brought a 68 per cent upturn in net earnings, which reached \$13.4m or 91 cents, with sales at \$413.2m against \$419.8m.

Whittaker also disclosed that it faces a class action suit from stockholders who bought Whittaker shares between March 1 and December 6, the date on which it disclosed the loss of the Saudi contract.

The suit alleges that Whittaker failed to disclose that the Saudi contract extension included an option for cancellation and that it had been obtained without open bidding, contrary to Saudi government policy.

The suit also claims that the company failed to disclose "ongoing disputes" with the Saudis.

All these Bonds and Warrants having been sold, this announcement appears as a matter of record only.

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## INTL. COMPANIES & FINANCE

### Battle hots up for Brisbane TV

BY MICHAEL THOMPSON-NOEL IN SYDNEY

AS RICH in twists and thick in plot as a high-suds soap, the fight for Brisbane Television (BTV) has matured into one of Queensland's toughest and most protracted takeover struggles for several years.

BTV's Channel 7 is the Sunshine State's highest-rating and most profitable TV station. It is also one of only two Australian network stations not yet locked into a major media conglomerate. Hence the frantic activity of recent weeks, during which the bidding has risen from A\$17.30 to yesterday's A\$27 per share, valuing BTV at a little over A\$50m (US\$44.5m). To date, the combatants have been evenly matched in willpower and stamina, though they tip the scales at different weights.

In the red corner is little-known bidding vehicle Capricornia Television, acting on behalf of Television Wollongong Transmissions (TWT), the operator of the regional TV station WIN 4 Wollongong, in the steel town south of Sydney. TWT is controlled by Mr Bruce Gordon, a one-time magician (at Sydney's Tivoli theatre), who lives in New York and is International Vice-President of Paramount Pictures' TV arm.

In the blue corner is John Fairfax, the Sydney-based media group (1982-83 group operating profits of A\$15.3m, up 17.3 per cent), which owns most of Australia's best news-

papers (including The Age, of Melbourne, and the Sydney Morning Herald), plus 38 magazines (including six in Hong Kong). Fairfax also has the Macquarie group of radio stations and Sydney's Channel 7 TV station.

Prior to the bidding duel with Capricornia—a tussle that has generated 28 separate bids—Fairfax had 19.9 per cent of Brisbane Television, acquired last year from Queensland Press at a time when the BTV share price was a meagre A\$14.

Why Fairfax did not move to take full control of BTV last year, when the share price was a fraction of current levels, is an unanswered question. According to one commentator: "The further this saga goes, the more embarrassing it appears for Fairfax."

Yesterday, Capricornia raised its offer to A\$27 per BTV share, and was promptly matched by Fairfax. At last night's count, Fairfax had 41 per cent of BTV, and Capricornia 30 per cent. The key to control now rests with Britain's Associated Newspapers, which has 7 per cent of BTV. Another 7 per cent is split among three other holdings, with the remaining 15 per cent dispersed among small shareholders. (On Friday, in Melbourne, a so-called mystery buyer was said to have bought 18,000 shares at A\$26.20.

BTV serves south-east Queensland, that offers surf, sun and year-round sun, and whose property and touristic potential—particularly at Surfers Paradise, at the heart of the Gold Coast crescent—has generated one of Australia's greatest-ever booms.

Further profitable development is forecast elsewhere in south-east Queensland, particularly on the Sunshine Coast north of Brisbane, for tourism is an important money-spinner for the eccentric but powerful National Party state regime.

The latest bidding for Brisbane Television has jolted the price earnings multiples to almost 23 times last year's earnings of A\$2.2m (a record multiple for an Australian TV station), while a report by Lloyds International, commissioned by BTV to provide shareholders with independent advice, says BTV profits in 1983-1984 are expected to be at the high end of the range of price earnings multiples of recent media takeovers—"given as 10 to 12 times earnings."

This would point to current-year earnings at BTV approaching A\$5m. At the weekend, responding formally to the rival bidders, BTV said that revenue and profit for the first 22 weeks of the current year were well

in advance of last year. BTV also made it clear that it preferred Fairfax to Television Wollongong Transmissions, provided their final bids were at approximately the same level.

BTV's reason was that Fairfax already owned one station in the National Seven Network (ATN 7 in Sydney). For its part, Lloyds International has spoken of the extensive media interests of Fairfax as against the relatively limited media interests of TWT, and of Fairfax's experience as a capital city TV operator, against TWT's merely regional exposure in downbeat Wollongong.

Capricornia maintains that "independent ownership of the Brisbane station in the Seven network would ensure decisions would be made to the best advantage of Brisbane viewers, not Sydney viewers." Mr Gordon says Queensland is Australia's most exciting state, and has said he may buy a Gold Coast home if he can spirit the BTV rabbit out of the Fairfax hat.

On the other hand, TWT (of which Mr Gordon's family company owns about 55 per cent) says it would not object to Fairfax remaining as a minority BTV shareholder.

Whether Fairfax would bed down with Television Wollongong as a minority BTV shareholder is much less clear. Questions were forwarded to Fairfax yesterday, but the fish weren't biting.

### CUB still silent on Elders offers

By Our Sydney Correspondent

CARLTON AND UNITED Breweries (CUB) said yesterday it could recommend neither acceptance nor rejection of Elders-Id's A\$900m (US\$800m) plus takeover bid.

CUB formerly owned 49.4 per cent of Elders-Id, the pastoral food, finance and resources group. Last week, following an earlier partial offer for CUB by Mr Ron Brierley's Industrial Equity, Elders gained control of CUB after launching an aggressive share-buying spree.

Its two formal offers, one in cash and the other in shares and cash, come into effect at the end of the month. Elders now has approximately 57 per cent of CUB's capital.

CUB is Australia's biggest brewer, with an estimated 50 per cent share of national beer sales.

### NZFP in partial bid for Watties

BY DAI HAYWARD IN WELLINGTON

NEW ZEALAND Forest Products—the country's 2nd largest company—which last month saw 24.9 per cent of its shares acquired in a surprise joint move by the Watties and Goodman groups, yesterday retaliated against its major shareholder by itself making a bid for 24.9 per cent of Watties.

It offered 450 cents for each Watties ordinary share compared with Friday's closing price of 340 cents, 320 cents for the 12.5 per cent preference shares, compared with 200 cents, and 415 cents for the 16 per cent preference shares, compared with 265 cents.

However, soon after Forest Products announced its offer a mystery buyer came into the market. It topped Forest Products' offer, and Forest Products was forced to increase its bid to 466 cents a share. The

last sales of the day were around 470 cents.

The move, which would have cost NZFP more than NZ\$90m (US\$58m) at its original offer price, is seen as a safeguard to prevent the Watties and Goodman combination from launching a full takeover bid.

It is believed that NZFP also bought Goodman shares which quickly jumped by 40 cents to 402 cents a share.

Watties and Goodman have a 35 per cent stake in one another and Goodman in particular is known to be in an expansionary mood. The joint bid for NZFP cost the companies NZ\$160m and some market observers believe they intend to increase further their share.

Last week Mr William Morris, the chairman of Watties, told shareholders that Forest Products was the leading company in the paper and pulp industry

which was seen as an important growth area.

Watties believes the price of Forest Products shares was well below the true worth of the company's assets.

Watties and Goodman are both large food-based conglomerates and the two control most of the major food companies. Goodman has risen quickly over the past decade to become New Zealand's eighth largest company. In 1982 it recorded a record net profit of NZ\$12.26m and this year boosted that by 17 per cent to NZ\$14.3m.

It was not known last night how much of its 24.9 per cent target (the maximum a New Zealand company is allowed to acquire without making a formal takeover bid) had been gained by Forest Products but further heavy trading is expected today. Watties has not as yet reacted in public to the move.

NEW ISSUE

December 1983



## Bangkok Bank Limited

(Incorporated with limited liability in the Kingdom of Thailand)  
London Branch,  
59 Gresham Street, London, EC2V 7HB  
United Kingdom

**US \$50,000,000**

Negotiable Floating Rate U.S. Dollar Certificates of Deposit  
due 20th December 1988

Managed by

**Tokai International Limited**  
**BA Asia Limited**

**Chuo Trust Asia Limited**  
**Kyowa Bank Nederland N.V.**  
**LTCB International Limited**  
**Morgan Grenfell & Co. Limited**  
**Orion Royal Pacific Limited**

Agent Bank

**Tokai International Limited**

**BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.**  
U.S.\$30,000,000  
Floating Rate Notes due 1986  
In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the next Interest Period has been fixed at 10 1/2 per cent per annum. The Coupon Amounts will be US\$274.82 for the US\$5,000 denomination and US\$2,748.18 for the US\$50,000 denomination and will be payable on 21st June, 1984, against surrender of Coupon No. 6.  
Manufacturers Hanover Limited  
Agent Bank

**MULTIBANCO COMEREX, S.A.**  
U.S.\$25,000,000  
Floating Rate Notes due 1984  
In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the next Interest Period has been fixed at 10 1/2 per cent per annum. The Coupon Amounts will be US\$54.96 for the US\$1,000 denomination and US\$2,748.18 for the US\$50,000 denomination and will be payable on 21st June, 1984, against surrender of Coupon No. 9.  
20th December, 1983.  
Manufacturers Hanover Limited  
Agent Bank



## IRELAND

U.S. \$50,000,000  
Floating Rate Notes due 1990

Pursuant to Condition 4 and Condition 10 of the Terms and Conditions of the Notes we hereby notify that we, as the Purchase Agent of the Notes, purchased Notes in the aggregate face amount of U.S. \$4,000,000 during the period beginning on 18th December, 1982 and ending on 19th December, 1983.

**Sumitomo Finance International**  
Purchase Agent

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities.  
The offer is made only by the Prospectus.

NEW ISSUE

December 16, 1983

2,490,400 Units

## CIRO INC.

Each Unit Consists of One Share of Common Stock  
and One Warrant To Purchase One-Half Share of Common Stock

Price \$1.80 per Unit

Copies of the Prospectus are obtainable in any State from  
dealers as may lawfully offer these securities in such State.

**Rooney, Pace Inc.**

**Kitcat Aitken & Safran**  
Limited

**U.S. \$100,000,000**



The First Canadian Bank  
**Bank of Montreal**

**FLOATING RATE DEBENTURES,**  
SERIES S, DUE 1990

(Subordinated to deposits and other liabilities)

For the six months  
20th December, 1983 to 20th June, 1984

In accordance with the provisions of the Debenture, notice is hereby given that the rate of interest has been fixed at 10 1/2 per cent and that the interest payable on the relevant interest payment date, 20th June, 1984 against Coupon No. 7 will be U.S.\$55.25.

**Morgan Guaranty Trust Company**  
London

**U.S. \$20,000,000**

Floating Rate Subordinated  
Bearer Participation Certificates 1990

issued by The Law Debenture Intermediary Corporation Limited  
evidencing entitlement to payment of principal and interest  
on an advance made to

**Den norske Creditbank (Luxembourg) S.A.**  
repayment of which is guaranteed on a subordinated basis by  
**Den norske Creditbank**

**DnC**

In accordance with the provisions of the Certificates, notice is hereby given that for the three month Interest Period from 19th December, 1983 to 19th March, 1984 the Interest Rate will be 10 1/2 per annum and the Coupon Amount per U.S. \$1,000 will be U.S. \$27.33.

**Credit Suisse First Boston Limited**  
Agent Bank











## BIDS AND DEALS

## MINING NEWS

## Marston Thompson advances midterm

FOR the six months ended September 30 1983 taxable profits of Marston Thompson & Everard improved from £2.5m to £3.97m and the interim dividend is effectively raised to 0.565p net, compared with an adjusted 0.51p.

In July the directors, who reported year-end profits up from £6.0m to £6.8m, said that the first few months of the year had been difficult owing to adverse weather conditions, but the company was holding its market share.

The now said that the good summer engendered a substantial growth in larger sales, including that of the company's own lager, although demand for Marston's main asset, never fully recovered and they ended the six months slightly down on 1982.

However, an improved performance in managed houses, together with a better contribution from wines and spirits helped result in increased trading profit—up from £3.2m to £3.4m.

Turnover of this Burton-on-Trent concern rose from £23.4m to £24.5m.

Tax charge for the first half amounted to £1.1m (£1.7m) and after extraordinary credits of £108,000, against £111,000, the attributable balance came through at £2.17m, compared with £1.9m.

Extraordinary items consisted of £1,000 discount last time on debenture stock redeemed; profit on the sale of properties £68,000 (£102,000); profit on maturity of investments £37,000 (nil).

Earnings per share were 2.67p at September 30, against an adjusted 2.52p.

**Arenson Group**

Mr Archy Arenson, chairman of the Arenson Group, told shareholders at the annual meeting: "The various steps taken during the second half of last year to alter the company operating strategy enabling it to return to profitability are proving successful."

Corrected Notice to the December 9, 1983 advertisement.

**KAWASAKI STEEL CORPORATION**

(Incorporated in Japan)

U.S. \$100,000,000 5% CONVERTIBLE BONDS DUE 1986 (the "Bonds")

NOTICE IS HEREBY GIVEN to Bondholders that, by a Merger Agreement dated October 25, 1983, Kawasaki Steel Corporation (the "Company") and Kawasaki Chemical Industry Co., Ltd. (the "Merger Agreement"), have agreed that the Company will merge with Kawasaki Chemical Industry Co., Ltd. ("Kawatsui"), a Japanese corporation of which the Company currently holds 28 per cent of the issued share capital.

Pursuant to the proposal (to be submitted to the shareholders of the Board of Directors of the Company held on October 25, 1983, the Company will absorb Kawatsui, which will be dissolved; shareholders of Kawatsui will receive 10 Yen 50 par value shares of the Company for one Yen 50 par value shares of Kawatsui.

The above merger is subject to the approval of the shareholders of the Company and Kawatsui. Extraordinary General Meetings of the shareholders of the Company and Kawatsui will be held on December 22, 1983 and December 21, 1983, respectively, for the purpose of approving the merger. Subject to the approval of the shareholders of the Company and Kawatsui, the completion of other necessary procedures, the merger will take place on April 1, 1984.

The merger will not result in an adjustment of the Conversion Price.

Subject to the approval of the shareholders, it is intended that the Company will make public notices on the Official Gazette in Japan on December 22, 1983 to the effect that the Company's creditors may raise objection, if any, to the proposed merger by February 15, 1984, in accordance with the Commercial Code of Japan.

**KAWASAKI STEEL CORPORATION**

By: The Bank of Tokyo Trust Company

as Principal Paying Agent

Dated: December 9, 1983

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute an invitation to the public to subscribe or purchase any securities.

## Charterhouse J. Rothschild plc

(Incorporated in England No. 1773177 under the Companies Acts 1948 to 1983)

Authorised	Share Capital	Issued and paid
£142,000,000	Ordinary Shares of 25p each	£94,660,524

Following the merger of The Charterhouse Group plc and RTI and Northern p.l.c. through a new holding company, Charterhouse J. Rothschild plc, the Council of The Stock Exchange has admitted to the Official List the Ordinary Shares and the Warrants to subscribe 20,793,786 Ordinary Shares of Charterhouse J. Rothschild plc. Dealings in these securities commence today.

Particulars of the Company and of the securities are available in the statistical services of Ertel Statistical Services Limited and copies may be obtained during normal business hours up to and including 6th January, 1984 from—

Charterhouse Japhel plc,  
1 Paternoster Row,  
St. Pauls,  
London EC4M 7DH

S. G. Warburg & Co. Ltd.,  
30 Gresham Street,  
London EC2P 2EB

Cazenove & Co.,  
12 Tokenhouse Yard,  
London EC2R 7AN

Grierson, Grant and Co.,  
59 Gresham Street,  
London EC2P 2DS

20th December, 1983

## Rights will lift Bond's Airship stake

BY DAVID DODWELL

THE Bond Corporation, owned by the flamboyant Australian entrepreneur Mr Alan Bond, is likely to become a substantial shareholder in Airship Industries in the wake of a rights issue to be unveiled later this week.

Mr Bond leapt to fame this summer when his yacht, Australia II, snatched victory from the U.S. in the America's Cup for the first time in 132 years.

His interest in the struggling Airship Industries, which was launched on London's Unlisted Securities Market in March this year after a £5.5m rights issue, was revealed yesterday when the company announced that it is planning a "major rights issue" which the Bond Corporation had agreed to underwrite.

Exact details of the rights issue will be released later this week. While it is technically possible that current shareholders could take up their rights in full,

it is expected that the outcome will be that Mr Bond will be able to acquire a substantial stake in the company. He is entitled to control up to 50 per cent.

Airship Industries shares were suspended ahead of the announcement yesterday at a price of 80p. This compares with a flotation price in March of 140p.

Long delay in winning a serial work certificate has aggravated Airship Industries' cash-flow problems in recent months, putting in jeopardy a number of orders. This certificate was finally granted three weeks ago.

In the 14 months to March 31 this year, the company made a pre-tax loss of £3.6m—compared with a £1.6m loss in the preceding 12 months. It is understood that losses continue, and the company is facing acute cash-flow problems. An announcement giving more background to these problems is expected with the rights issue details.

At present only the Skyship 500, Airship's "proof-of-concept" craft, has flown, or won orders. The 20-passenger Skyship 600, which has initially expected to undergo its maiden flight in July, is not expected to leave terra firma until early next year.

While Mr Bond is understood to be interested in acquiring a stake in the company, it is also clear that he is keen to place orders in Australia.

Mr Bond's Perth-based group has major energy interests in Australia, as well as owning the Ewan Brewery, and having substantial diamond assets. In the year to June 30 1983, Bond Corporation incurred net profits of A\$6.84m (24.3m) on a turnover of A\$309m. This compares with profits of A\$4.3m in 1982-83, on a turnover of A\$224m.

In recent months, Mr Bond's corporation has announced intentions to spend up to A\$300m on a major acquisition in the energy sector, and has unveiled plans to buy a stake in Sulpetro, a Canadian oil and gas group, for A\$124m. He has also disposed of his 5 per cent stake in the Argyle diamond project in Australia.

## Britannic bids for Midland Tst.

BY DAVID DODWELL

BRITANNIC ASSURANCE yesterday announced an agreed shares or cash offer for Midland Trust valuing Midland at about £8.9m.

Britannic, with the Britannic Pension Fund, already controls 36 per cent of Midland's shares. The offer, which would lead to the liquidation of the trust, was announced yesterday when Britannic as a "tidying up operation," intended to cut overhead costs and to "get management charges right."

The terms of the share offer are for one Britannic share—taken at 48p—to the value of 100 per cent of the net asset value of a Midland Trust ordinary share for each Midland share.

The calculation of the net asset value will be made on the date the offer becomes, or is declared, unconditional.

A cash alternative—equivalent to 100 per cent of net asset value—is to be provided separately by S. G. Warburg. This will apply "to the extent that net asset value does not exceed 199.92p," Warburg said.

News of the deal lifted Midland Trust shares by 65p to a closing price of 20p, while Britannic shares slipped by 10p to 45p.

In addition to the shares already controlled by Britannic and its pension fund, the company said yesterday that it had won irrevocable acceptances of

## Brammer spends £180,000 on electronic side

Brammer has reached agreement with Mr D. P. Dawson for the purchase of his 20 per cent shareholding in United Electronics.

UE is part of the United Electronic Holdings group which was founded by Brammer earlier in the year.

The total purchase price of £180,000 is to be satisfied in three instalments: the issue of an appropriate number of Brammer ordinary shares. The first instalment, £100,000, will be satisfied by the issue of 70,923 Brammer ordinary shares.

Mr Dawson will remain managing director of United Electronics.

## Sound Diffusion in £0.8m deal for Bateman

Sound Diffusion has conditionally agreed to purchase W. H. Bateman and Son, and Bateman Catering, both of Tipton, West Midlands.

The consideration of £800,000 will be satisfied by issue of approximately 574,000 ordinary shares of 1p each, representing approximately 0.42 per cent of the present issued share capital. The final number of ordinary to be issued will be determined on completion, which is expected to be on February 1.

The net tangible assets of Bateman at December 31 1982, amounted to approximately £28,200. The net tangible assets of Bateman House at Tipton, with a period of 15 years to run at a current rental of £22,750 per annum.

The consolidated profit before payment of remuneration to the two retiring directors, and tax for 1982, amounted to approximately £20,000.

Sound Diffusion has embarked on a course of diversification by acquisition in order to enlarge their sphere of activities in areas where they can utilise existing expertise in marketing and renting equipment.

The directors of APV Bell Bryant advise shareholders that circumstances have arisen which may result in an offer being made by APV Holdings for their holding in the company.

In the meantime, directors advise holders not to sell their shares.

Mr Stephen S. James of Thomson McLintock and Co has been appointed as receiver and manager of Roverhires Ltd and Roverhires Auctions Ltd at the request of the directors.

The receiver is looking for a purchaser of the company's business with its fleet of 74 cars together with an extensive complex of leasehold offices, workshops, auction hall and car park in Epsom Court, London.

## Akroyd shareholders approve Mercury stake

SHAREHOLDERS of Akroyd & Smithers, the stockjobber, yesterday approved arrangements which will allow Mercury Securities, the parent company of the cabinet maker—merchant bank S. G. Warburg, to take a 29.9 per cent stake in the company.

At the meeting of Akroyd shareholders the Department of Trade and Industry announced that, following advice from the Office of Fair Trading, it had decided not to refer the £41m Mercury-Akroyd deal to the Monopolies and Mergers Commission.

At the Akroyd meeting Mr Brian Peppiatt, senior partner of the jobbing company, told shareholders that "there are many changes taking place within the securities industry and the future course of events is uncertain. But judging by what happened in the U.S. when faced with a similar upheaval in 1976 it is most essential to have a strong capital base and the potential of international coverage both of which this deal should provide."

He added that it was against this background that his board

## Kraft Productions talks with potential bidder

Kraft Productions, the loss-making Somerset furniture maker, revealed yesterday that it was at an advanced stage of negotiation with a group of investors who may make a bid for the company.

Mr David Burns, a director of Kraft and a holder of 24 per cent of the company's shares following a refinancing and reorganisation this summer, said yesterday that the approach had come "rather out of the blue."

Disclosing only that it had come

## Dunlop signs sale contract with Sumitomo

Dunlop Holdings and Sumitomo Rubber Industries have signed the main contract covering the sale of most of Dunlop's European tyre business.

The deal is essentially announced last September except that the fall in the value of the yen has led to an increase from £41m to £43m in the interim payment Dunlop is to receive by the year-end. The total consideration is about £58m and the balance is due in January 1985.

Berkeley & May Hill states that by 3.30 pm on December 19, acceptances had been received by Promotions House in respect of 17,066,303 ordinary shares in Berkeley (58.95 per cent). In the document setting out terms and conditions of the offer, it was announced that irrevocable undertakings had been received by Promotions House to accept the offer in respect of 7,893,889 shares of Berkeley (27.23 per cent), and acceptances have been received in respect of these shares which are included in the above total.

As acceptances have been received in respect of more than 50 per cent of voting rights attributable to the shares for which the offer is made, the board of Promotions House has declared the offer unconditional as to acceptances.

However, it should be noted that the offer is still conditional on passing at an EGM of Promotions House convened for tomorrow, of resolutions to increase authorised share capital of Promotions House; to approve the acquisition of Berkeley, and to increase borrowing powers of the company.

The Kisin family, which also objected to the sale, is understood to be seeking to dispose of its 10 per cent stake as well.

Kraft made a net loss before interest of £270,000 in the year to December 31 1982 on a turnover of just under £800,000. This compared with a £27,000 loss in 1981, on a turnover of £1m.

COPL, the Italian investment group headed by Dr Giorgio Rossi, has sold its 6 per cent stake in Guinness Peat, the investment banking group.

In October, Dr Rossi resigned from the Guinness Peat board in protest at the terms of its proposed acquisition of the Moor-side Investment Trust. Guinness Peat financed the deal with an issue of new shares priced at 40p, which Dr Rossi considered too low.

The deal was approved by shareholders after management argued that it represented a vital recapitalisation of the troubled Guinness Peat group.

The COPL stake was placed with various City institutions by the Zurich and Berne stock brokers, for a price understood to be 80p. Guinness Peat closed yesterday at 82p.

The Kisin family, which also objected to the sale, is understood to be seeking to dispose of its 10 per cent stake as well.

## Italian group sells 6% stake in Guinness Peat

THE U.S. Debenture Corporation is proposing to update and amend its memorandum and articles of association and to amend the dividend ratings on its preference and debenture stocks.

The memorandum and articles amendments will be effected through adoption of a new objects clause, which will take account of changes in types of investment, management practice and law which have occurred since the company's incorporation.

The directors do not intend that the adoption of the new clause will have any material effect on the nature of the company's business.

It is proposed that the present annual dividend rate of 3.85 per cent on the preference stock be increased to 4.5 per cent, the annual dividend rate on the 4

## Italian group sells 6% stake in Guinness Peat

per cent irredeemable stock be increased to 4.75 per cent with a final repayment date of August 1 1990, and the rate on the 4.5 per cent irredeemable stock be increased to 5.25 per cent with a final repayment date of August 1 1999.

The directors also propose that the 1979-84 stock be repaid at par, together with accrued interest, on January 31 1984, eight months before its final redemption date.

The company's existing articles of association currently limit the amount that it can borrow to 10 per cent of paid up share capital. It is now proposed that a new borrowing limit be adopted to allow the company to borrow an amount equal in aggregate to its paid up share capital and realised reserves equivalent to approximately £54m as at January 31 1983.

## U.S. Debenture Corporation

THE U.S. Debenture Corporation is proposing to update and amend its memorandum and articles of association and to amend the dividend ratings on its preference and debenture stocks.

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## Uranium output still exceeds demand

URANIUM production has fallen sharply from a peak in 1980-81, but still outstrips demand for nuclear fuel, according to the latest OECD estimates, writes David Fishlock, Science Editor.

With demand this year only about 31,500 tonnes, stockpiles are sufficient to meet four or five years of reactor requirements and are still growing.

Yet uranium production for the world outside the communist areas (WOCA) has fallen from 44,000 tonnes in 1980 and 1981, and 41,000 in 1982, to an estimated 38,000 tonnes this year.

According to Mr Derek Taylor, an OECD official with the Nuclear Energy Agency in Paris, writing in the January issue of Nuclear Engineering International, the 1983 edition of the OECD "Redbook" on uranium resources, production and demand will reveal a situation of continuing oversupply of uranium in spite of recent cutbacks in production.

The country most severely affected is the U.S., where many mining facilities are using on average only 60 per cent of capacity.

Since 1980 there have been small falls in production in South Africa and Namibia, but Australia, Brazil and France.

The Redbook surveys information gleaned from about 50 countries, analysed in a joint exercise by the Nuclear Energy Agency and the International Atomic Energy Agency. The new edition of this bi-annual survey should be published next month.

Projections of production capacity for WOCA, based on well-established uranium resources recoverable at costs up to \$130 per kilogram, suggest that the production capacity of centres of production already existing or committed will rise to about 50,000 tonnes a year by 1990.

This capacity will then remain constant for five years.

A longer-term projection, to 2025, suggests that if the demand were to appear, existing, committed, planned and prospective production capacity could rise rapidly to about 70,000 tonnes by the early 1990s and maintain this level until early in the next century.

These estimates do not include many of the U.S. mines currently on standby, because they may not be economically competitive within a few years.

The estimates also allow for only one new Australian production centre, and no expansion of existing facilities.

Demand for WOCA is expected to rise from 31,500 tonnes this year to about 33,000 tonnes in 1990, to nearly 60,000 tonnes in 1995. The latest estimate for the year 2000 is between 70,000 and 80,000 tonnes.

The Uranium Institute, the London-based thinktank of the uranium industry, said yesterday that it would be producing its own analysis of supply and demand early next year. This will be based on industry rather than government estimates, and will be more detailed than the Redbook.

**LADBROKE INDEX**  
753-755 (+3)  
Based on FT Index  
Tel: 01-493 5261

**Rights Offering**

December 1983

## Profits rise at Hampton Areas—payout held

BY GEORGE MILLING-STANLEY

SHARPLY HIGHER nickel royalty payments from Australia's Western Mining Corporation and a generally steady performance from the other operations helped the London-registered Hampton Gold Mining Areas to improve profits in the six months to September 30.

Attributable profits for the first half came out at £1.03m, well ahead of the £805,000 for the opening six months of 1982/83.

The rise in earnings per share from 4.17p to 4.24p was not nearly so impressive, following the rights issue and share placement earlier this year, but the interim dividend is being maintained at 1p on the increased capital.

Last year's final was 2.75p, for a total of 3.75p from attributable profits of £2.35m.

Mining on nickel production from Hampton Areas' land in Western Australia jumped to £528,000 from £227,000 last year, even though the annual adjustment of £59,000 has already been deducted. The total income from this source during the first half was bigger than for the whole of the previous year.

Mr George Livingstone-Learmonth, Hampton Areas' managing director, said yesterday that the rise was largely attributable to the higher nickel price. World nickel prices began to improve at the start of the accounting period.

The UK coal operations performed satisfactorily, with a first-time contribution from the Blackbenny mine in Scotland. Profits from coal production machinery group were significantly below those for last year in the face of adverse trading conditions.

Income from the Oklahoma oil and gas joint venture was below expectations, while Nesquehoning Coal in Pennsylvania remained in loss.

Hampton Areas close unchanged at 205p in London yesterday.

Dec June Dec June  
1983 1983 1982 1982  
cents cents cents cents  
Eisberg ... 26 "6.5 "6.5 "nil  
Hampton Areas ... 800 "800 "800 "300  
Western Areas ... 40 "10 "10 "nil

**May & Hassell PLC**  
(Timber Importers and Merchants)

Extracts from the Interim Statement to Shareholders by the Chairman, Mr P. J. Atley Half Year to 30th September 1983

THE PROFIT BEFORE TAX is up from £126,000 to £1,286m.

THE INTERIM DIVIDEND is up from 1.3p to 1.6p.

**HALLAM GROUP.** On 30th September May and Hassell acquired the remaining 50% of the ordinary shares of Hallam. Its status as a 50% owned associate has been reflected in the half year figures.

**GROUP DEVELOPMENT.** We have re-established a shipping subsidiary, Frampton Shipping Co., which owns the 1,570 ton Emanach, established ourselves in Leeds as timber merchants and purchased J.S. Towell in Boston, Lines, which has freehold premises adjacent to our own.

**TRADING CONDITIONS AND OUTLOOK.** Over recent years we have tackled our problem and loss making areas. Now, except for Belgium and Hallam, all group companies are trading profitably. The full year should see the half year improvement more than maintained.

**FINANCIAL STATISTICS**

	Half year to	Half year to	Year to
	30.9.83	30.9.82	31.3.83
Turnover	2,000	2,000	2,000
	34,543	28,657	60,642
Profit before Interest & Tax	2,354	1,421	3,064
Interest	(1,601)	(1,166)	(2,271)
Associated Company Loss	(67)	(109)	(65)
Profit Before Tax	1,286	126	728

Copies of the full Interim Report are obtainable from the Secretary, May & Hassell PLC, P.O. Box 156, Bristol BS99 7PH

**May & Hassell PLC**

is offering its shareholders of record on December 5, 1983 the right to subscribe for

16,630,000 Common Shares

on the basis of one additional share for each seven Rights received.

Subscription Price: \$14.625 per share

These Rights expire at the close of business on January 10, 1984.

We recommend that shareholders exercise their Rights.

Our services are available to assist in subscription for shares or for the purchase or sale of Rights.

We are members of the Sponsoring Dealer Group which will receive compensation in respect of shares subscribed through them. We are also members of an international underwriting syndicate which has agreed to purchase up to 6,837,607 of the Bank's new common shares, which remain unsubscribed at the expiration of this rights offer, for sale outside of Canada and the United States of America.

**Burns Fry Limited**



## COMPANY NEWS

## APPOINTMENTS

## TECHNOLOGY

EDITED BY ALAN CANE

## Syltöne recovers to £0.2m midway

AFTER plunging from pre-tax profits of £1.18m to £53,000 at the year-end, Syltöne showed a considerable recovery in the first half to September 30 1983, and profits rose from £59,000 to £225,000.

The directors say that although improvement is "relatively small," it does indicate a considerable improvement in the trend of the company's profitability.

They are optimistic that the drastic and far-reaching steps taken in the U.S., and continued diversification away from the oilfield business, will produce profitability during 1984.

In the United Kingdom, all subsidiaries are profitable and trading at or near budget with the exception of Rotocold which, while running better than budget, is still suffering considerable losses due to research and development costs.

Franchises have been obtained to enable the company to offer a refrigeration product range which is expected to lead, in due course, to an improvement in trading results of the refrigeration division.

European trading subsidiaries have produced a useful pre-tax profit of £23,000 (£30,000).

Turnover of this engineering and wholesale electrical distribution group rose from £7.61m to £9.65m, and trading profits improved from £185,000 to £437,000. The pre-tax figure was after interest charges up from £158,000 to £202,000 and associates' losses this time of £10,000. Tax took £204,000 compared with £49,000.

The interim dividend is unchanged at 3.6p net, and the directors say the final is expected to remain at last year's level of 5.4p.

After the trading difficulties and changes in the composition of the group over the last few years, the company still has a strong balance sheet. First half figures include results of company's electrical wholesale distribution company, sold in October.

The company, I. Dyson, was sold to R. and W. Hawthorn Leslie and Company for £214,000 cash, representing a substantial portion of Dyson's reserves, was paid to Syltöne on October 25.

Proceeds of the sale will be used to fund new development of engineering products for Syltöne manufacturing companies.

## INTERIM STATEMENT

## PARKFIELD FOUNDRIES

p.l.c.

### Recovery well under way

★ On a turnover for the half year to 29th October 1983 of £1,510,870 (1982—£1,721,623) the company made a loss before tax of £87,624 (1982 loss—£25,700). No interim dividend will be paid.

★ Although a loss is reported for the half-year, a small profit was achieved in the second quarter as a result of an improvement in the order book. This improvement has continued with the third quarter and will be further enhanced by the benefits of the acquisitions of Walker Steel Works and Walker Castings which have now been completed. These acquisitions will enable your company to fulfil one of its long-standing ambitions of controlling its own product from the melting furnace to finished fully machined form.

★ The Rights Issue reduced the borrowing ratio from 76% to 40%, since when the ratio has decreased further. Prospective indications are that there will be a further significant reduction by the year end.

★ Mr G. T. Canby, CBE, Chairman, who for some time has been coping with this position to make way for a younger man, retired as Chairman on 31st December but remains on the Board. Mr Roger Felber, who joined Parkfield as Deputy Chairman following the Rights Issue in September and since then has been very active in developing the business of the company and the negotiation of Parkfield's first acquisitions, has been appointed Chairman as from 1st January 1984.

PARKFIELD ROAD, STOCKTON-ON-TEES

## New chairman for Marks and Spencer

Marks and Spencer is making the following board changes after the annual meeting on July 5: Lord Sief of Brimpton to relinquish the chairmanship, but will become president as well as continuing as a director. Lord Rayner will become chairman in addition to his present responsibilities as chief executive. Mr Michael M. Sacher, vice-chairman, has decided to retire, but will remain as a consultant. Mr F. C. Hirst, director, and Mr V. L. Osborne, alternate director, will be retiring during 1984 as they reach their normal retirement age. Mr J. E. M. Samuel, finance director, is to retire after the annual meeting. Mr J. K. Oates will become finance director at the beginning of April. Mr Oates is vice-president finance of Thyssen-Bornemisza NV in Monaco. Mr J. A. Lusher and Mr D. C. Traugott have been appointed directors.

Mr Ian Taylor has been appointed managing director of the computing services "bureau" operation of DATASOLVE, part of Thorn EMI information technology division. He was manager of the customer service department with ICL. Mr Alan R. Battersby has been promoted from sales director to director of sales and marketing. He has been with Datasolve since 1976.

Mr Alec R. Bennett becomes group marketing director for all marine companies of LANGHAM INDUSTRIES from January 1. He will be responsible for the worldwide sales of Stone Manganese Marine propellers. At present he is director of APV Hall International.

Mr James Cave is to be appointed a director of THE ENGLISH TRUST from January 19. He will be in charge of the investment division and managing director of The English Association Investment Management.

Mr Michael Nevill, Mr Ken Mills and Mr Peter Higgins have been appointed assistant general managers of VANBRIDGE LIFE. Mr Nevill heads the sales division, Mr Mills the sales support division and Mr Higgins the administrative division.

Mr Gillian Braithwaite-Exley, currently head of the programme planning secretariat with the Independent Television Companies Association, will join CHANNEL 4 in March in the new post of head of programme planning.

HB ELECTRONIC COMMUNICATIONS has appointed Mr Lawrence Gordon Hazzard as non-executive chairman in succession to Mr John Wardle, who is retiring. Mr Hazzard is managing director of the Grosvenor Group and chairman of Henry Wigfall & Sons.

Mr Ken Douglas, managing director of AUSTIN AND

PICKERSGILL, Sunderland, has decided to take early retirement, and will be succeeded on January 1 by Mr George M. Parker. Mr Parker is divisional managing director of shiprepair at British Shipbuilders, and will continue in this position on a part-time basis until the end of January. Mr P. C. M. Thompson, who is on secondment to British Shipbuilders from the Department of Trade and Industry, will become corporation secretary, also from January 1. He succeeds Mr F. E. Neah, who will become commercial director of Vickers Shipbuilding and Engineering at Barrow-in-Furness.

Mr J. G. Alston has been appointed chairman of BROOKS AND DOOLEY (UNDERWRITING) during the period of administrative suspension of Mr T. Brooks from Lloyd's of London. Mr Alston will remain a director of Leslie and Godwin (Holdings) and Leslie and Godwin (Underwriting).

GRAND METROPOLITAN has appointed Mr John Harvey-Jones as a non-executive director. He is chairman of Imperial Chemical Industries.

Mr Michael Ginn is stepping down as managing director of BRITISH AIRWAYS HELICOPTERS by mutual agreement. He will remain a consultant.

Mr John G. Adams has joined the board of NEIGHBOURHOOD STORES. He is also chairman of Southern Estates Group and deputy chairman of Higgs and Hill as well as director of Ransome Sims and Jeffreys and director of Associated Paper Industries.

Mr J. Nigel Nash has been appointed a trustee of the JOSEPH ROWNTREE MEMORIAL TRUST. He takes the place of Lord Seebom, who has retired. Mr Nash is a partner in Robinson and Morton, York.

Mr J. C. Marvin has been appointed to the board of HICKSON INTERNATIONAL from January 1.

Mr Robin Adam has been appointed managing director of SCOTTISH WOODLAND OWNERS ASSOCIATION (COMMERCIAL) — one of Scotland's leading private forestry management companies. He succeeds Mr Dennis Crawford.

Mr Ian Howe, deputy chairman and chief executive of KITE SAVE DISCOUNT GROUP, has been appointed chairman. He will succeed Mr Ian Hill after the annual meeting on January 6. Mr Hill will continue as a non-executive director in the capacity of deputy chairman.

Mr Desmond Quigley has joined the board of STREETS FINANCIAL. Mr Jonathan Baker and Mr Toby Mountford have been appointed associate directors.

## HOW THE BIOTECHNOLOGISTS WOODED AND WON THE DONS

## Celltech leaves safe anchorage

By DAVID FISHLOCK

CAN A manufacturing company hope to harness the science of Nobel-prizewinning calibre successfully to its business plan? One UK company believes that it has. It has just agreed a new five-year pact with British academics to continue what promises to be a highly profitable partnership.

Celltech, a biotechnology company set up only three years ago, believes it has demonstrated a unique mechanism for efficient technology transfer from academe to industry. Its claim is supported by Sir James Gowans, the Oxford medical scientist who manages the £100m-a-year Medical Research Council, supporting university research in medical sciences.

Celltech has explored the possibilities of at least 10 research centres of the MRC and is currently developing ideas from six. But Sir James stresses that the partnership is not one-sided. From the start research centres have shared the initiative in seeking ideas worth exploiting.

For Sir James, a pointer to the success is the reaction of other bigger British companies which have shown scant interest in his research programme until he gave Celltech exclusive rights to its research in genetic engineering. They complained vigorously. But some companies stayed around to inquire what else might be worth exploiting.

The exclusivity enjoyed by Celltech for its first three years both protected the embryonic venture and provided a spur to perform quickly, as the agreement was to be renegotiated this year. Celltech has found it is operating in a highly competitive market, with around 200 other biotechnology start-ups, as well as big business.

But the MRC also wants to see its discoveries used, and used quickly. The suspicion still lingers in the Thatcher Government that its scientists were so indifferent to exploitation that they gave a monopoly to British invention in genetic engineering away to the U.S.

The invention was the Cambridge discovery in 1975 of monoclonal antibodies and how to make them. "No one has made any money yet," Sir James has tried to reassure the government. The first medical products based on this discovery are just beginning to reach the



Gerard Fairclough (left), and Sir James Gowans.

"The working bond is so strong . . . that the exclusivity which was designed to protect Celltech in its early years is no longer needed": John Jackson, Celltech chairman.

market, and the Celltech-MRC partnership has ensured that Britain has its share. Royalties have begun to trickle back to the MRC.

The invention was made in the Laboratory of Molecular Biology in Cambridge, third-largest of the MRC's institutes, spending about \$4.5m a year, predominantly in genetic engineering. Celltech's scientists in Slough meet every two months with Dr Sydney Brenner, the director, and his scientists. Dr Brenner is also a biotechnology consultant to Rothschild, whose trust biotechnology investments holds 11.4 per cent of Celltech's shares. Sir James Gowans himself is on the Celltech board.

As Gerard Fairclough, Celltech's chief executive sees it, the partnership has established three guiding principles for collaboration, written into the agreement for the next five years.

First, for ideas already adopted or MRC research now being funded by Celltech, the company retains full rights to exploitation. This applies to about 15 specific potential products which started life in MRC laboratories, Fairclough says. A suite of monoclonal antibodies useful in blood typ-

ing is one example.

Second, any general areas of research to which Celltech has given support—the anti-interferons is an example—the MRC is under obligation to offer the company. The company undertakes to give its answer within three months. This applies to about ten areas of research, Fairclough says.

Third, the MRC is no longer under any obligation to offer Celltech the chance to exploit work in genetic engineering in which the company has shown no prior interest. This is an important change from the first agreement. It puts the onus on the company to convince the MRC that it remains in its best interests to offer Celltech the idea rather than any other company.

The first medical products from the Cambridge discovery will be for diagnosis, to assay disease and other human conditions. Such products do not need the protracted clinical testing necessary for drugs which must be taken regularly.

Celltech persuaded the MRC's leading authority in new diagnostic techniques to join the company. Dr William Hunter, who was heading its immunology team in Edinburgh, also

brought two of his senior staff. Dr Hunter, one of the world's foremost immunobiologists, says he already saw himself as an entrepreneur, sought out by British doctors to help keep Britain in the vanguard of new diagnostic techniques. "An extremely practical academic" is how his boss sees him.

Dr Hunter is research director of Boots-Celltech Diagnostics, a joint venture set up recently alongside the Celltech laboratories in Slough, to specialise in the application of monoclonal antibodies to novel diagnostic products. Its first product, a new assay that can find congenital defects such as spina bifida in unborn babies, was invented by Dr Hunter's team in Edinburgh.

The same assay, for alpha foetal protein (AFP) gives early warning of liver cancer, a condition which secretes large amounts of AFP. Such tests can take as little as three hours.

According to David Gratton, a former Wyeth executive, now chief executive of Boots-Celltech, the AFP assay is just the first of a series he confidently expects to revolutionise health-care laboratory practice. In assays for infectious disease "we are certainly as far down the track as anybody."

Boots, eager to break into a burgeoning new market, provides the joint venture with a ready-made distribution network.

Mr Gratton also envisions over two other exciting ideas from Dr Hunter. One is an "absolute fertility test" which tells precisely when a woman is ovulating, which he sees as a breakthrough in birth-control technology. The other is an oncofertility test for fertility in cows.

Already, claims Gratton, the MRC has introduced Celltech to a wealth of prospective new diagnostic products — "more than enough to set up a business." Dr Hunter has harnessed his own informal network of science advisers throughout the MRC, and more widely.

Dr Gratton, new to managing scientists, says he has already made sharply aware that if Boots-Celltech does not move fast enough it will not be able to retain the scientists—indeed, to fund more Spacelab flights. On future missions, ESA will have to pay the American government the commercial rate for using the space shuttle. This puts the total cost of a 10-day Spacelab mission at around U.S.\$160m.

## New streak of confidence

### Video & Film

By JOHN CHITTOCK

AS EVERY good marketing manager knows, the principles of successful marketing can be enshrined in a few immutable laws of business. These are to make a reasonably-priced product that the customer wants, to create awareness of the product, and to make obtaining the product easy.

Surprisingly, one major industry which has a tradition rooted in salesmanship has been less than consistent in applying those principles. The cinema business has failed miserably in its attempt to reverse the decline of its fortunes over the last 20 years in Britain.

In 1982, Britain contained fewer than 1,000 cinemas compared with some 1,500 in 1971. One in four people in Britain live at least 20 miles from their nearest cinema.

The good news, however, is that for every disappointed person who is aware of a film, one will see it. Any marketing manager of average brightness, confronted with such evidence, might well say "funny—in missing out somewhere." That immutable law of marketing—product awareness—seems to have been overlooked.

Indeed, many critics of Britain's cinema industry would claim—in the most charitable moments—that some of the older laws have been brushed

aside too, such as making it easy for the customer to obtain the product.

In an impressive attempt to return to first principles, Thorn EMI is starting a new marketing campaign. The company has integrated its cinema, film, television and video activity into one new division.

Concentrating on the cinema side of its business, Thorn EMI has analysed its problems over marketing. PA Management Consultants looked at why people go to the cinema. Statisticians and Saatchi analysed how they can be made to go more often.

What emerges is extraordinary not so much for its revelations, but for the inference that these are revelations. The main finding is that if more people can be made aware of specific films, cinema attendances will increase.

The research concludes that people go to see specific films. They do not just "go to the cinema" as they did 30 years ago.

From this emerges two obvious but easily neglected principles: "You need an adequate

supply of at least adequate films" and there is "significant scope to increase traffic through advertising."

People are made aware of films by friends or family TV advertisements, TV reviews, local newspaper advertisements and cinema hoardings.

Thorn EMI is all set to follow up the lessons of the research. It will run full-page advertisements in the national Press every Friday to show when and where films can be seen.

Archaic practices of the industry will be scrapped. These include the booking of strong competing films at different cinemas during the best months.

Thorn EMI films will also operate on fixed programming times. And the company will guarantee film screening periods of up to four weeks at main cinemas. This will allow exhibitors a decent opportunity to promote their wares.

Much tinkering with management methods and policies will also streamline the package. It all adds up to a convincing streak of confidence for a battered industry.

## Space Decisions ahead for ESA

The European Space Agency will decide next year whether to join the U.S. in its space station venture, according to M Michel Bignier, the agency's director of space transportation systems.

M Bignier said the European organisation would be keen to provide hardware for the venture. "But you would need a crystal ball to say what is going to happen because we still do not know what the Americans are planning."

M Bignier said he was excited by the results from the first Spacelab mission which ended last week. Of the 71 scientific experiments on the vehicle, only one failed. The experiments included projects in remote sensing and astronomy and work to determine ways of mixing metals to make new alloys.

The space agency will decide over the next few months on whether to fund more Spacelab flights. On future missions, ESA will have to pay the American government the commercial rate for using the space shuttle. This puts the total cost of a 10-day Spacelab mission at around U.S.\$160m.

## Rabobank.

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Bilateral trade between the Netherlands and the United Kingdom continues to grow. Rabobank has therefore opened a representative office in London. It is here to assist British companies maintaining trade relations with the Netherlands. It is here to help you with information about trade opportunities and suitable business locations in the Netherlands.

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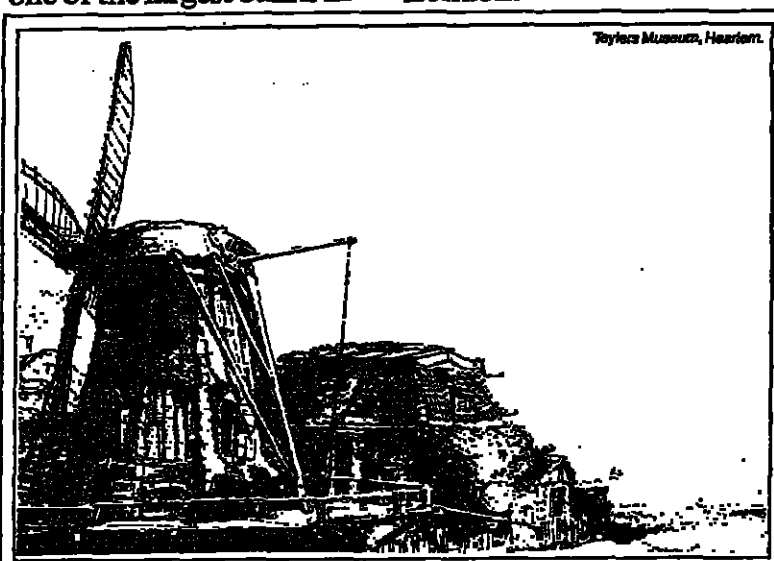
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## Telephony Logging the calls

CALLOG, THE London telephone call logging equipment and service company, now offers a standard report which includes a summary of long distance and international calls for each extension line of a FAX.

Since it started operating in August 1981 the company claims it has acquired the lion's share of the market.

In the Callog system, users buy or lease relatively cheap monitoring equipment in which the data is recorded on a tape cassette having, on average, data relating to 4,000 calls. This is analysed at three NCR centres on big mainframe computers and comprehensive reports are returned to clients.

The equipment costs from £1,600 and the annual service

charge for providing the reports is £360. These figures alone may account for the success of the company since most other systems on offer carry out analysis within the monitoring equipment and print the reports on the user's premises—they are usually more expensive as a result.

Callog's reports can be extensive and detailed says the company, because the analysis takes place on powerful computers. In addition, basic analysis data such as call rates and the correlation of towns to dialling code is kept fully updated and accurate. More on 01-730 9656.

## Retailing

A NEW company, Microsell, funded by British Technology Group and an investment syndicate, has launched a modular retail system which the company says "can be customised to meet each retailer's trading environment."

Apart from the customary keyboard, displays and cash drawer, each terminal on the Model 9000 supports a light pen for bar code reading and an integral magnetic stripe reader for credit cards—with an associated built-in auto-dialler to allow card authorisation.

There is also an integral 18 or 40 column printer and a choice of displays ranging from two single lines (one for assistant and one visible to customer), to five or seven inch display screens.

Microsell 9000 can be used as a stand-alone till, in which case a controller and data storage are built into it, or several can work together, looped into a controller. In the multi-terminal case the most cost effective combination of semiconductor, Winchester disc or floppy disc, is connected to the controller. For larger systems, several controllers and standalone terminals can be connected via a communications processor, which in turn can link

the whole system to a company's mainframe. More on 022576 5933.

## Smuggling

BRITISH AEROSPACE is selling a new version of an X-ray system to detect smuggled goods. Lorries laden with cargo drive into a bay where the complete vehicle is X-rayed. Contraband shows up on TV screens in an operators' room.

The good news is FERRANTI Selling technology



## SECTION III - INTERNATIONAL MARKETS

## FINANCIAL TIMES

Tuesday December 20 1983

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## WALL STREET

A dampener  
felt in Fed  
deliberations

A CAUTIOUS attempt at an end-of-year rally was made on Wall Street yesterday, when leading stocks edged higher with the help of slight falls in rates in the bond market, writes Terry Byland in New York.

However, turnover was light and both sectors of the market remained prey to nervousness over the likely outcome of today's meeting of the Open Market Committee of the Federal Reserve Board.

The Dow Jones industrial average was up 2.44 to 1,244.61 at the close.

Some bond market participants believe the Fed may decide to tighten credit policies now, rather than wait until next year when the presidential election campaign will be in full swing.

It is thought that the Fed will find it more difficult to draw in the monetary reins after Congress has returned from the Christmas break, and the political organisations are bracing themselves for the opening of the presidential primary campaigns. President Ronald Reagan is expected to announce his election decision early in the new year.

The stock market was slow to make a start yesterday, but prices began to move up at mid-morning as bonds recouped the minor falls chalked up late on Friday after the confirmation of a \$5.5bn gain in M1 money supply last week.

Transport stocks looked a shade bet-

ter but utility issues, battered by the fear of higher interest rates ahead and by continued problems over nuclear power reactors at Long Island Lighting and other utility power stations, remained uneasy.

The onset of the Christmas season cut down the flow of corporate reports. An early feature was the cancellation of the proposed purchase of Tymshare by McDonnell Douglas. Both stocks made a delayed start to trading, and Tymshare faced heavy selling orders when they returned to the trading floor, to lose \$4½ to \$20½. McDonnell returned at \$58, a shade firmer, in line with the rest of the heavy industrial leaders.

Greyhound added ½ to \$25½ as the outcome of the vote by its striking workforce was awaited. Greyhound also announced completion of the sale of the Armour meat products business, which resulted from the company's resistance to the industrial dispute.

With the vesting date for the new stocks now only three weeks away, the AT&T stocks continued to head the active list. The old stock, at \$63½, eased ¼, while the new stock was unchanged at \$18½ on slightly less business.

IBM gave a strong lead, gaining ¼ to \$122, but turnover was relatively light for the market's bellwether stock. General Electric added ¼ to \$56, Eastman Kodak ¼ to \$74½ and Honeywell ¼ to \$136½.

American Express, ¼ higher at \$31, extended its recovery from last week's shakeout.

The credit market braced itself for the heavy weight of Treasury funding now due over the holiday period. Dealers believe that the problem of absorbing the Treasury's needs will be magnified by an unwillingness of major funds and investors to reopen inventories now closed until the new year.

The market must face \$29.3bn in Treasury funding this week, and then a fur-

ther \$15bn or so next week. Fortunately, borrowing calendars in both the corporate and municipal bond sectors are now light until the end of the year, but there is still a certain amount of disquiet over the size of Treasury demands.

The chief test will come next week when the authorities seek to sell four and seven-year notes and 20-year bonds. With investors hurrying towards the short end of the market, these longer-dated issues will be difficult to place.

But the view of the Treasury is that the credit market has been given enough time - since October - to overcome the difficulties.

The Treasury gave further help to the short end of the market yesterday in the form of \$2bn in customer repurchases when the Federal funds rate stood at 9¼ per cent.

Treasury bill rates opened a shade higher at 9.11 per cent for the three-month and 9.24 per cent for six-month bills. Later the three-month bill slipped back to a discount of 9.04 per cent, 5 basis points down on Friday, but the six-month bill, at 9.27 per cent discount, remained 5 basis points up.

The key long bond at 100 ½ was ½ up and yielding 11.98 per cent.

## LONDON

New York  
talk adds to  
festivities

THE RUN-UP to the Christmas holiday began for London equity markets in quietly festive mood yesterday. Most blue chip industrial funds genuine investment demand lacking, but this failed to stop the FT Industrial Ordinary share index attaining an all-time peak, up 2.8 to 762.1.

Bowater provided the base for the assault, closing 10p better at 253p, after 250p, on buying fuelled by a suggestion that the group is to receive a U.S. re-rating and could be high on American investors' new year lists for the ADR facility.

Elsewhere, Britannic Assurance's agreed offer for Midland Trust prompted a jump of 85p in MT to 200p, while talk of a U.S. predator entering the battle for Eagle Star lifted that insurer 8p to 728p.

Gilts took heart from sterling and gained ground in thin trading. Longer-dated stocks recorded gains ranging to ¼, but shorter maturities were only around ½ dearer.

Details, Page 23; Share information service, Pages 24-25.

## TOKYO

Poll result  
punctures  
enthusiasm

THE RULING Liberal Democratic Party (LDP) setback in Sunday's general election sent Tokyo stock prices plummeting yesterday from Saturday's all-time peak. Losses were seen across the board in the morning session, with blue-chip and speculative issues leading the decline before a large number of stocks recouped much of the lost ground in the afternoon, writes Shigeo Nishitaki of Jiji Press.

The Nikkei-Dow average, which fell 187.16 points in the morning, made a gradual recovery in the afternoon to finish the day off 81.47 points at 9,484.17. Volume totalled 251.19m shares, compared with 430.86m on Friday's full-day session. The selling, although hurried was unexpectedly light.

The stock market had resumed its advance last Wednesday on widespread expectations of an easy victory by the LDP in the election. The Nikkei-Dow reached an all-time high of 9,565.64 on Saturday after a four-day gain of more than 180 points.

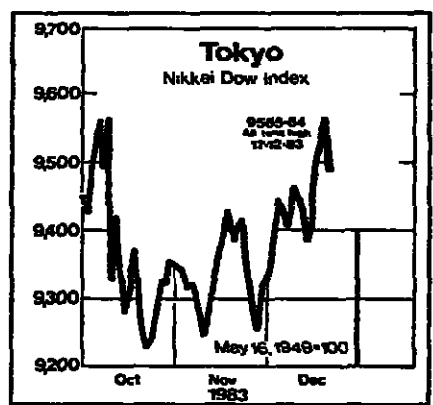
The unexpected heavy loss of LDP seats in the Lower House sent stock prices into a tailspin in the morning on small-lot sales and dealers' sacrifice selling.

The afternoon rally came on dealers' renewed buying and investor repurchases. This was based in turn on prospects that the ruling party could scrape together a majority by allowing some independent electoral victors to join the party on top of the 250 seats it won, even though it failed to obtain the simple majority of 256 seats in the 511-seat Lower House.

Prominent among the losers were blue-chip issues. Fuji Photo Film lost Y70 (down Y90 at one stage) to Y2,010, NEC Y30 (Y80) to Y1,420, Matsushita Electric Industrial Y50 (Y70) to Y1,870, TDK Y20 (Y300) to Y3,350, and Toyota Motor Y30 (Y70) to Y1,440. Sony, which plunged Y140 at one time, rebounded sharply to Y3,480, up Y30 from Saturday's close.

Speculative issues suffered small-lot selling across the board. But JEOL advanced Y61 to Y879 on foreign buying. Central Glass also climbed Y11 to Y321, and robot-related issues gained strength, with Nachi-Fujikoshi rising Y4 to Y341 and Yaskawa Electric Y5 to Y800.

On the bond market, the defeats for the LDP and the yen's slide against the U.S. dollar forced investors to the sidelines. The yield on the benchmark 7.5 per cent long-term government bonds, maturing in January 1993, consequently rose somewhat to 7.465 per cent from Saturday's 7.445 per cent.



## EUROPE

Frankfurt  
answers  
buyers' call

A SLOWING in the dollar's rise, with confidence drawn from Wall Street's slightly firmer close on Friday, gave encouragement to investors in most European centres.

Some bargain hunting after last week's declines helped Frankfurt ahead, and the Commerzbank index recorded a 10.4 rise to 1,018.3.

Siemens was in demand, touching DM 380 before settling to close up DM 5.40 at DM 379.40. SEL, which with Siemens is expected to benefit from the digitalisation of West German telephone exchanges, gained DM 7.50 to DM 324.50. Banks made gains, with Deutsche DM

3.10 higher at DM 318.80, Dresdner adding DM 2.10 to DM 165.90 and Commerzbank DM 2.50 ahead at DM 164.

Insurer Allianz rose DM 15 to DM 509 as investors awaited the next move in its contested takeover bid for Eagle Star of Britain.

Foreign buyers returned to the chemicals sector, taking Hoechst up to DM 177 before it eased to close DM 1.50 ahead on the day at DM 178.20. BASF rose 60 pips to DM 166.70, Bayer 30 pips to DM 166.80 and Schering DM 3.50 to DM 358.

Bonds continued the steady tone which began on Friday. Banks were active buyers of short-dated issues, although volume was restricted with investors holding back ahead of the year end.

The Bundesbank sold DM 20m of paper to balance the market after DM 18.7m of purchases last Friday.

A mainly quiet, but firmer, Amsterdam was dominated by the weekend announcement that Philips and a consortium of European banks plan to take over Grundig of West Germany next year.

Philips rose 90 cents to Fl 43.30, but other internationals were mixed. Banks and insurers gained, while among publishers, Elsevier firmed Fl 8 to Fl 479. Océ-Van der Grinten added Fl 2.50 to Fl 232 after a Fl 234 opening.

State loans were unchanged to slightly higher.

The compromise agreement between the French Government and the Peugeot motor group over the future of its Poissy plant gave some encouragement to investors in Paris.

Shares ended mixed to firmer, although Peugeot dipped Ffr 2.50 to Ffr 200.50.

In a steady Zurich, chocolate maker Lindt, which added Sfr 100 to Sfr 10,000, was at its highest level for several years.

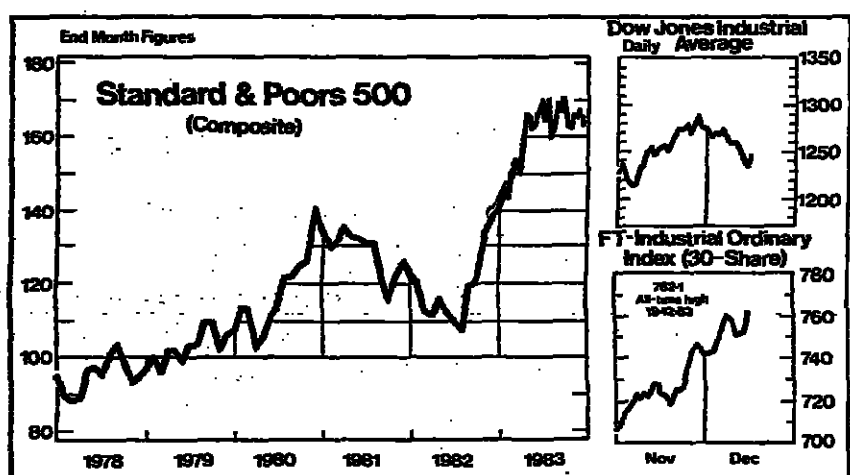
Continued on Page 22

## ARGENTINA

A WEEKEND announcement that a further tax on Argentine shareholdings is being planned prompted swift mark-downs of some 35 to 40 per cent in Buenos Aires stocks, as the exchange opened to an angry response from private investors.

At one stage trading, disrupted by members of the public, was suspended for almost half an hour. Many of the panic sellers were said to have undeclassified assets in the market.

## KEY MARKET MONITORS



STOCK MARKET INDICES				
	Dec 19	Previous	Year ago	
NEW YORK				
FT Industrials	1,244.61	1,242.17	1,011.50	
DJ Transport	590.80	590.15	444.32	
DJ Utilities	130.54	131.02	117.29	
S&P Composite	162.73	162.39	137.49	
LONDON				
FT Ind. Ord	762.1	759.30	591.2	
FT-A All-share	483.62	482.48	379.69	
FT-A 500	495.40	494.59	419.50	
FT-A Ind	457.17	456.08	382.91	
FT Gold mines	558.2	558.00	508.4	
FT Govt sec	82.64	82.34	78.85	
TOKYO				
Nikkei-Dow	9,484.17	9,530.51	7,865.88	
Tokyo SE	701.22	705.32	579.55	
AUSTRALIA				
All Ord.	755.60	756.00	473.30	
Metals & Mins.	544.80	549.20	394.60	
AUSTRIA				
Credit Aktien	55.39	54.82	48.89	
BEELGIUM				
Belgian SE	134.48	135.87	98.00	
CANADA				
Toronto Composite	2,503.6	2,508.70	1,857.60	
Montreal Industrials	438.72	440.38	314.40	
Combined	422.23	423.34	311.06	
GERMANY				
Copacem SE	200.58	198.26	83.75	
FRANCE				
CAC Gen	149.10	148.60	100.40	
Ind. Tendance	159.50	158.10	119.40	
WEST GERMANY				
FAZ-Aktien	344.12	340.91	246.40	
Commerzbank	1,018.30	1,007.50	743.50	
HONG KONG				
Hang Seng	857.25	880.77	757.73	
ITALY				
Banca Com.	186.43	187.88	167.32	
NETHERLANDS				
ANP-CBS Gen	147.70	147.10	97.30	
ANP-CBS Ind	122.70	121.50	81.10	
NORWAY				
Ose SE	212.19	212.19	96.33	
SINGAPORE				
Straits Times	982.51	983.48	742.72	
SOUTH AFRICA				
Gold	804.70	849.30	886.60	
Industrials	936.60	927.00	725.50	
SPAIN				
Madrid SE	closed	119.48	97.37	
SWEDEN				
J & P	1,446.84	1,475.44	858.15	
SWITZERLAND				
Swiss Bank Ind	371.90	371.60	281.20	
WORLD				
Capital Int'l	Dec 16	Prev	Yr ago	
	179.0	178.60	148.70	

Corporate bond indications in New York were unobtainable at source.

CURRENCIES				
	Dec 19	Previous	Dec 19	Previous
(London)				
\$	2.7730	2.7780	3.9350	3.93
DM	236.15	235.70	335.25	333.50
FFr	8.4555	8.4775	11.9950	11.9850
SwFr	2.2120	2.2150	3.14	3.1350
Guilder	3.1145	3.1170	4.42	4.41
Lira	1681.75	1682.50	2385.00	2378.50
Yen	56.44	56.58	80.05	80.00
CS	1.29225	1.2905	1.7730	1.7685
INTEREST RATES				
	Dec 19	Prev		
3-month U.S.	10%	10%		
6-month U.S.	10%	10%		
U.S. Fed Funds	9 1/4%	9%		
U.S. 3-month CDs	10.05%	10.10%		
U.S. 3-month T-bills	9.08%	9.08%		
U.S. BONDS				
	Dec 19	Price	Yield	Price
10% 1985	99 1/2%	10.82	99 1/2%	10.83
11% 1990	98 3/4%	11.80	97 1/2%	12.03
11.75 1993	99 1/2%	11.84	99 1/2%	11.85
12 2013	100 1/2%	11.83	100 1/2%	11.84
FINANCIAL FUTURES				
	Latest	High	Low	Prev
CHICAGO				
U.S. Treasury Bonds (CBT)				
8% 32nds of 100%	70-05	70-10	n/a	70-07
U.S. Treasury Bills (NIM)				
\$1m points of 100%	90.99	91.02	90.97	90.99
December	90.99	91.02	90.97	90.99
Certificates of Deposit (NIM)				
\$1m points of 100%	90.13	90.12	90.10	90.12
December	90.13	90.12	90.10	90.12
LONDON				
Three-month Eurodollar				
\$1m points of 100%	89.52	89.55	89.48	89.47
March	89.52	89.55	89.48	89.47
20-year National Gilt				
£50,000 32nds of 100%	108-30	109-08	108-25	108-14
December	108-30	109-08	108-25	108-14
COMMODITIES				
	Dec 19	Prev		
(London)				
Gold (spot fixing)	608.10p	624.40p		
Copper (cash)	£207.00	£208.00		
Coffee (Jan)	£207.00	£212.00		
Oil (spot Arabian light)	£28.12	£28.18		
GOLD (per ounce)				
	Dec 19	Prev		
London	\$375.125	\$373.875		
Frankfurt	\$375.00	\$377.25		
Zurich	\$375.25	\$374.50		
Paris (bidding)	\$377.49	\$378.99		
Luxembourg (bidding)	\$376.45	\$381.75		
New York (Dec)	\$373.0	\$372.80		

\* Indicates latest pre-close figure

The Ebic banks bring  
strength and  
experience to your  
financial operations

Over the past 20 years, the Ebic banks have been co-operating with each other in order to offer services which are both innovative and dynamic to their national and international customers. Their expertise has benefited small, as well as large businesses, importers, exporters, international organisations, states and, indeed, governments.

Through their interbank co-operation, their international networks and their common investments, the Ebic banks can assist in a variety of financial operations. These include business loans, export financing, euroloans, foreign exchange risk coverage, eurocurrency issues, project financing, mergers and acquisitions and many others.

Specially created by the Ebic banks are a number of common investments in which either all or the majority of the member banks have important holdings. In Europe, for instance, there's European Banking Company SA Brussels and European Banking Company Limited in London which together, as the European Banking Group, wholly-owned by the seven

Ebic banks, offer specialised services throughout the world.

In the States, there's European American Bank (EAB) with subsidiaries in New York and their affiliates and branches in Bermuda, Cayman Islands, Chicago, Los Angeles and Nassau (Bahamas).

Then there's European Asian Bank (Eurasbank). Headquartered in Hamburg, it has branches in Bangkok, Bombay, Colombo, Hong Kong, Jakarta, Karachi, Kuala Lumpur, Lahore, Macau, Manila, Seoul, Singapore and Taipei.

Ebic banks also have important participations in European Arab Bank in Brussels, Cairo, Frankfurt, London and Manama (Bahrain), and in Euro-Pacific Finance Corporation in Brisbane, Melbourne and Sydney.

If you'd like to take advantage of our financial strength and experience, and would appreciate further details, then just send your business card, marked "Information on Ebic," to the Ebic Secretariat, 100 Boulevard du Souverain, B-1170 Brussels.



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[illegible]

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**Continued on Page 2**



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## WORLD STOCK MARKETS

## LONDON

## Jobbers act to widen oil margins

MARKET MAKERS on the London Stock Exchange moved yesterday to improve their margins on deals carried out in oil shares, an action which sparked an immediate row among the stockbroking community, writes John Moore, City Correspondent, in London.

Costs for investors who buy and sell oil shares in London will rise as a result of the move in which stockjobbers, the market makers, will widen the spread between the selling and buying price of five oil shares in their dealings with the brokers acting on behalf of clients.

In the new arrangement, the margin between the two prices will be raised from 4p to 5p on shares in BP, British Petroleum, Shell and Trianon, while on the shares of Burmah Oil the spread will be widened from 2p to 3p.

Mr Charles Hue Williams, a partner with stockjobber Wedd Durlacher, said yesterday that the move had been made "to take account of the extreme volatility in oil stocks. Everybody is disappointed."

Stockbroking specialists in oil stocks were particularly upset. "We don't think it is really necessary," said one firm. "They should have consulted with the brokers and institutions beforehand," said another firm, which added, "it is a reflection of the present structure of the stock market that they can do this sort of thing."

Brokers argued that the present separation of stockbroking and stockjobbing functions meant that jobbers were largely protected from commercial pressures. "They have just taken advantage of the current system," said another firm. It predicted that such actions would end when dual capacity, or an overlap of functions between the brokers and jobbers, was introduced.

● The council of the London Stock Exchange will consider today its final rules for allowing its member firms to set up international dealing companies in which outsiders will be allowed to participate. It will also consider its final list of outside candidates for five places on the council.

## EUROPE

Continued from Page 19

The bond market was mixed, with an easier bias in foreign bonds, although domestic issues were mostly higher.

Good performances by some holding companies and retail stocks helped Brussels higher. Among these, Cogefar rose Bfr 85 to Bfr 3.110, while Sofina added Bfr 70 to Bfr 5.270.

In Stockholm, shares were broadly lower with many institutions having already closed their books for the year.

Bolton, which announced agreement with Combustion Engineering of the U.S. to form a joint company for marketing and development of Bolson's pig-iron production process, shed SKr 8 to SKr 372.

Meanwhile, the Swedish parliament approved a 1 per cent turnover tax on share dealings, which will also be levied on foreign investors. But dealings in non-Swedish shares between foreign investors will be exempt.

In Milan, renewed pressure on Italmobiliare group issues pushed the market lower in this trading, as speculators opened short positions for the new account. Italmobiliare shed L2,220 to L36,750.

## CANADA

Continued from Page 19

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## DENMARK

Continued from Page 19

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## NETHERLANDS

Continued from Page 19

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## AUSTRALIA

Continued from Page 19

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## JAPAN (continued)

Continued from Page 19

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## AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 21

Continued from Page 21									
100	REDM	9 40	13	13	17	17	17	17	17
27	REIT	2 20 66 12	13	13	24	24	24	24	24
28	RFC	100	13	13	24	24	24	24	24
29	RSC	100	13	13	24	24	24	24	24
30	WTC	48 56 8 27	13	13	24	24	24	24	24
31	WTC	120 8 27	13	13	24	24	24	24	24
32	WTC	100	13	13	24	24	24	24	24
33	WTC	100	13	13	24	24	24	24	24
34	WTC	100	13	13	24	24	24	24	24
35	WTC	100	13	13	24	24	24	24	24
36	WTC	100	13	13	24	24	24	24	24
37	WTC	100	13	13	24	24	24	24	24
38	WTC	100	13	13	24	24	24	24	24
39	WTC	100	13	13	24	24	24	24	24
40	WTC	100	13	13	24	24	24	24	24
41	WTC	100	13	13	24	24	24	24	24
42	WTC	100	13	13	24	24	24	24	24
43	WTC	100	13	13	24	24	24	24	24
44	WTC	100	13	13	24	24	24	24	24
45	WTC	100	13	13	24	24	24	24	24
46	WTC	100	13	13	24	24	24	24	24
47	WTC	100	13	13	24	24	24	24	24
48	WTC	100	13	13	24	24	24	24	24
49	WTC	100	13	13	24	24	24	24	24
50	WTC	100	13	13	24	24	24	24	24
51	WTC	100	13	13	24	24	24	24	24
52	WTC	100	13	13	24	24	24	24	24
53	WTC	100	13	13	24	24	24	24	24
54	WTC	100	13	13	24	24	24	24	24
55	WTC	100	13	13	24	24	24	24	24
56	WTC	100	13	13	24	24	24	24	24
57	WTC	100	13	13	24	24	24	24	24
58	WTC	100	13	13	24	24	24	24	24
59	WTC	100	13	13	24	24	24	24	24
60	WTC	100	13	13	24	24	24	24	24
61	WTC	100	13	13	24	24	24	24	24
62	WTC	100	13	13	24	24	24	24	24
63	WTC	100	13	13	24	24	24	24	24
64	WTC	100	13	13	24	24	24	24	24
65	WTC	100	13	13	24	24	24	24	24
66	WTC	100	13	13	24	24	24	24	24
67	WTC	100	13	13	24	24	24	24	24
68	WTC	100	13	13	24	24	24	24	24
69	WTC	100	13	13	24	24	24	24	24
70	WTC	100	13	13	24	24	24	24	24
71	WTC	100	13	13	24	24	24	24	24
72	WTC	100	13	13	24	24	24	24	24
73	WTC	100	13	13	24	24	24	24	24
74	WTC	100	13	13	24	24	24	24	24
75	WTC	100	13	13	24	24	24	24	24
76	WTC	100	13	13	24	24	24	24	24
77	WTC	100	13	13	24	24	24	24	24
78	WTC	100	13	13	24	24	24	24	24
79	WTC	100	13	13	24	24	24	24	24
80	WTC	100	13	13	24	24	24	24	24
81	WTC	100	13	13	24	24	24	24	24
82	WTC	100	13	13	24	24	24	24	24
83	WTC	100	13	13	24	24	24	24	24
84	WTC	100	13	13	24	24	24	24	24
85	WTC	100	13	13	24	24	24	24	24
86	WTC	100	13	13	24	24	24	24	24
87	WTC	100	13	13	24	24	24	24	24
88	WTC	100	13	13	24	24	24	24	24
89	WTC	100	13	13	24	24	24	24	24
90	WTC	100	13	13	24	24	24	24	24
91	WTC	100	13	13	24	24	24	24	24
92	WTC	100	13	13	24	24	24	24	24
93	WTC	100	13	13	24	24	24	24	24
94	WTC	100	13	13	24	24	24	24	24
95	WTC	100	13	13	24	24	24	24	24
96	WTC	100	13	13	24	24	24	24	24
97	WTC	100	13	13	24	24	24	24	24
98	WTC	100	13	13	24	24	24	24	24
99	WTC	100	13	13	24	24	24	24	24
100	WTC	100	13	13	24	24	24	24	24



## RECENT ISSUES

## EQUITIES

11	18	22
2B	48	47
	-	-
0 1/2	1 1/2	
1 1/2	2 1/2	-
4	7	9
9	11	13

	280	a	18	25	b	17	25
	280		9	17		17	25
T 1000 (-100)	180	9	15	22	1 1/2	5	20
	180	1	7	10	1 1/2	17	6

Dec. 19, Total Contracts 1,095 Calls 635, Puts 450,  
 \* Underlying security price











**Britannia Sp of Unit Trusts Ltd (a) (c) (g)**  
Salisbury Hse, 31 Finsbury Circus, London, EC2.  
01-583 2777. Dealing: 01-638 0478/0479.  
Britannia Management 01-477 0248

[illegible]

**Midland Bank Group U.T. Mgrs. Lt.**

[illegible][illegible][illegible]

Hand-in-Hand				
Cash	99.8	105.1	+ 0.1	
1st	143.3	148.8		

[illegible]

**Guardian Royal Exchange**  
**Royal Exchange EC3** 01-283 7107

[illegible]

CAL Silver**	223.1	236.0	-8.0	—
CAL Gold**	86.6	91.2	-0.4	—
CAL Copper**	—	—	—	—

[illegible]

Target Trust Bings (Jersey) Ltd  
O Box 124, St Helier, Jersey. 0534 27441  
4pd Cur.Fd 98.0 103.3 +0.7

[illegible][illegible]

**ACROSS**

1 Hadrian's stationery? (7-5)  
10 Striding officer—I object to the result! (7)  
11 Company direction, a slight mistake? No, a real bloomer! (7)  
12 Chap going to Home Counties—that's where to see minister (5)  
13 13th century, for example, certain to be in this? (4-4)  
15 Believe competent and trustworthy (10)  
16 13's first half substitute players (4)  
18 Ruth discovers concealed danger at journey's end (4)  
20 Assembly apprentice or local administrator (10)  
22 Loyal girl almost repented (5)  
24 To be truthful, it's not quite calm (5)  
26 Landlord perhaps is the final winner (7)  
27 Share a person's destiny (7)  
31 A man and a female may meet her point in it (5-7)

**9 Drug dealer may pass you  
on the road. (5. 8)**

**Solution to Puzzle No. 529**

**DOWN**

2 Initially, Prime Minister's performance (7)

3 Coteries somehow abstruse (8)

4 Duck on the German river (4)

5 No scabs, but it may prevent your working! (6-4)

6 Some cope with flighty type (5)

7 Free issue (7)

8 Someone else's beverage unsuitable ? (3. 2. 3. 2. 3)

14 Acts cunningly for tactical exercises (10)


17 Run away together disheartened (8)

19 Four in test of little importance (7)

21 Christmas rising in East inspiring kind of Latin verse (7)

23 What Edison invented, some characters detested (5)

25 Drink up love, you're a gem! (4)



For prices of Capital Units and Guaranteed Basic Rates please phone 0703 334411.

**Swiss Life Pensions Ltd**

19-101 London Rd, Snyrsk. 0732 450181  
 GUILTY £104.82 108.06

[illegible]

Kodak International			
Bond St, St Heller, Jersey.	0534-71696		
2115 Sgs Tstz	108.03	+ 0.03	9.07
Am Val Cn Prs 3 1/2	100.02nd	....	—
Am Val Cdm 1/2	59.34	....	—
1/2 Prices at Oct 31.			

[illegible]

Investment	1-Month	3-Month	6-Month	1-Year
Money Market Fund	0.43	0.74	Qtr	Call
Victoria St. Bond Fund	2.73	9.00	6mth	Call
Day Fund	8.88	9.17	6mth	7day

New York			
Mar 1982	12.00		
Annual Mortgage Lending Agreements			
4 1/2% 30 Yr. F.C.C.	91-026	93.37	
5 1/2% 30 Yr. F.C.C.	91-026	93.37	
6 1/2% 30 Yr. F.C.C.	91-026	93.37	
7 1/2% 30 Yr. F.C.C.	91-026	93.37	
8 1/2% 30 Yr. F.C.C.	91-026	93.37	
9 1/2% 30 Yr. F.C.C.	91-026	93.37	
10 1/2% 30 Yr. F.C.C.	91-026	93.37	
11 1/2% 30 Yr. F.C.C.	91-026	93.37	
12 1/2% 30 Yr. F.C.C.	91-026	93.37	
13 1/2% 30 Yr. F.C.C.	91-026	93.37	
14 1/2% 30 Yr. F.C.C.	91-026	93.37	
15 1/2% 30 Yr. F.C.C.	91-026	93.37	
16 1/2% 30 Yr. F.C.C.	91-026	93.37	
17 1/2% 30 Yr. F.C.C.	91-026	93.37	
18 1/2% 30 Yr. F.C.C.	91-026	93.37	
19 1/2% 30 Yr. F.C.C.	91-026	93.37	
20 1/2% 30 Yr. F.C.C.	91-026	93.37	
21 1/2% 30 Yr. F.C.C.	91-026	93.37	
22 1/2% 30 Yr. F.C.C.	91-026	93.37	
23 1/2% 30 Yr. F.C.C.	91-026	93.37	
24 1/2% 30 Yr. F.C.C.	91-026	93.37	
25 1/2% 30 Yr. F.C.C.	91-026	93.37	
26 1/2% 30 Yr. F.C.C.	91-026	93.37	
27 1/2% 30 Yr. F.C.C.	91-026	93.37	
28 1/2% 30 Yr. F.C.C.	91-026	93.37	
29 1/2% 30 Yr. F.C.C.	91-026	93.37	
30 1/2% 30 Yr. F.C.C.	91-026	93.37	
31 1/2% 30 Yr. F.C.C.	91-026	93.37	
32 1/2% 30 Yr. F.C.C.	91-026	93.37	
33 1/2% 30 Yr. F.C.C.	91-026	93.37	
34 1/2% 30 Yr. F.C.C.	91-026	93.37	
35 1/2% 30 Yr. F.C.C.	91-026	93.37	
36 1/2% 30 Yr. F.C.C.	91-026	93.37	
37 1/2% 30 Yr. F.C.C.	91-026	93.37	
38 1/2% 30 Yr. F.C.C.	91-026	93.37	
39 1/2% 30 Yr. F.C.C.	91-026	93.37	
40 1/2% 30 Yr. F.C.C.	91-026	93.37	
41 1/2% 30 Yr. F.C.C.	91-026	93.37	
42 1/2% 30 Yr. F.C.C.	91-026	93.37	
43 1/2% 30 Yr. F.C.C.	91-026	93.37	
44 1/2% 30 Yr. F.C.C.	91-026	93.37	
45 1/2% 30 Yr. F.C.C.	91-026	93.37	
46 1/2% 30 Yr. F.C.C.	91-026	93.37	
47 1/2% 30 Yr. F.C.C.	91-026	93.37	
48 1/2% 30 Yr. F.C.C.	91-026	93.37	
49 1/2% 30 Yr. F.C.C.	91-026	93.37	
50 1/2% 30 Yr. F.C.C.	91-026	93.37	
51 1/2% 30 Yr. F.C.C.	91-026	93.37	
52 1/2% 30 Yr. F.C.C.	91-026	93.37	
53 1/2% 30 Yr. F.C.C.	91-026	93.37	
54 1/2% 30 Yr. F.C.C.	91-026	93.37	
55 1/2% 30 Yr. F.C.C.	91-026	93.37	
56 1/2% 30 Yr. F.C.C.	91-026	93.37	
57 1/2% 30 Yr. F.C.C.	91-026	93.37	
58 1/2% 30 Yr. F.C.C.	91-026	93.37	
59 1/2% 30 Yr. F.C.C.	91-026	93.37	
60 1/2% 30 Yr. F.C.C.	91-026	93.37	
61 1/2% 30 Yr. F.C.C.	91-026	93.37	
62 1/2% 30 Yr. F.C.C.	91-026	93.37	
63 1/2% 30 Yr. F.C.C.	91-026	93.37	
64 1/2% 30 Yr. F.C.C.	91-026	93.37	
65 1/2% 30 Yr. F.C.C.	91-026	93.37	
66 1/2% 30 Yr. F.C.C.	91-026	93.37	
67 1/2% 30 Yr. F.C.C.	91-026	93.37	
68 1/2% 30 Yr. F.C.C.	91-026	93.37	
69 1/2% 30 Yr. F.C.C.	91-026	93.37	
70 1/2% 30 Yr. F.C.C.	91-026	93.37	
71 1/2% 30 Yr. F.C.C.	91-026	93.37	
72 1/2% 30 Yr. F.C.C.	91-026	93.37	
73 1/2% 30 Yr. F.C.C.	91-026	93.37	
74 1/2% 30 Yr. F.C.C.	91-026	93.37	
75 1/2% 30 Yr. F.C.C.	91-026	93.37	
76 1/2% 30 Yr. F.C.C.	91-026	93.37	
77 1/2% 30 Yr. F.C.C.	91-026	93.37	
78 1/2% 30 Yr. F.C.C.	91-026	93.37	
79 1/2% 30 Yr. F.C.C.	91-026	93.37	
80 1/2% 30 Yr. F.C.C.	91-026	93.37	
81 1/2% 30 Yr. F.C.C.	91-026	93.37	
82 1/2% 30 Yr. F.C.C.	91-026	93.37	
83 1/2% 30 Yr. F.C.C.	91-026	93.37	
84 1/2% 30 Yr. F.C.C.	91-026	93.37	
85 1/2% 30 Yr. F.C.C.	91-026	93.37	
86 1/2% 30 Yr. F.C.C.	91-026	93.37	
87 1/2% 30 Yr. F.C.C.	91-026	93.37	
88 1/2% 30 Yr. F.C.C.	91-026	93.37	
89 1/2% 30 Yr. F.C.C.	91-026	93.37	
90 1/2% 30 Yr. F.C.C.	91-026	93.37	
91 1/2% 30 Yr. F.C.C.	91-026	93.37	
92 1/2% 30 Yr. F.C.C.	91-026	93.37	
93 1/2% 30 Yr. F.C.C.	91-026	93.37	
94 1/2% 30 Yr. F.C.C.	91-026	93.37	
95 1/2% 30 Yr. F.C.C.	91-026	93.37	
96 1/2% 30 Yr. F.C.C.	91-026	93.37	
97 1/2% 30 Yr. F.C.C.	91-026	93.37	
98 1/2% 30 Yr. F.C.C.	91-026	93.37	
99 1/2% 30 Yr. F.C.C.	91-026	93.37	
100 1/2% 30 Yr. F.C.C.	91-026	93.37	

Learning class	\$10.5083	+0.0023
mark class	DM451.1711	+0.0073
city Glor	GP151.2077	+0.0084
Yen of	YS160.6330	0.7540
S. FIF	\$10.0	10.55

Group Fund Managers (Bermuda) Ltd

Arthur Hume

News APR 1st of Notice

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## COMMODITIES AND AGRICULTURE

## Zinc prices hit nine-year high

BY RICHARD MOONEY

ZINC PRICES on the London Metal Exchange climbed to the highest level for nine years yesterday after Bilition, the Dutch producer, announced that it had raised its European selling price by \$30 to \$980 a tonne. The LME cash price ended the day at \$980.50 a tonne.

The Bilition move came as a surprise to most traders and has not so far been followed by other producers. It is the first increase since the general lifting of producer prices from \$925 to \$950 a tonne four weeks ago.

That was the sixth rise since this year's producer price advance began with the quotation at \$750 a tonne in May. Buying and short-covering following yesterday's announcement found sellers rather "reserved," traders and the three-month price moved through an established resistance area around \$615 before advancing further.

The LME price rise was also encouraged by a fall of 2,500 tonnes last week to 97,350 tonnes. Lead stocks also fell, by 425 tonnes to 171,475 tonnes.

## Agriculture warning

BY OUR COMMODITIES STAFF

BRITAIN should not trade the future of its agriculture industry against a deal on the EEC budget, Sir Richard Butler, president of the National Farmers' Union of England and Wales, said in London yesterday.

Speaking after the first plenary session of the UK farming unions' annual farm review, he said farmers accepted that the Community Agriculture Policy must be cost effective and that supply and demand for

farm produce in the EEC must be brought more into balance. "We understand and support the British Government's determination to achieve a fair and lasting formula for the British contribution to the EEC budget," he added, "but the Government must not accept a deal on the budget at the expense of British agriculture."

He claimed that more than 200,000 jobs were wholly or partly dependent on the success of the UK farming industry.

## Values of coffee fall back again

By Richard Mooney

LONDON COFFEE futures prices fell back again yesterday as dealers anticipated the release of extra coffee onto the world market under the terms of the International Coffee Agreement (ICO).

The recent price rise has lifted the ICO indicator price above 1.40 cents a pound and the 15-day average reaches this level another 1m tonnes of export quotas will be released. The average was 139.85 cents a pound on Friday an 8th indicator price of 1.40 cents a pound.

March futures position finished yesterday at \$199.50, down 2.25 cents.

● **FARMWORKERS** in England and Wales earned an average of £128.45 for a 49.9 hour week in the July to September quarter, up from £114.85 for 49.1 hours in the same period last year.

● **THAILAND'S** rubber exports rose 5.18 per cent to 519,118 tonnes in the first 11 months of this year, Japan remained the biggest buyer.

● **THE 1984 U.S.** rice programme will include a 25 per cent acreage reduction requirement, with a sign-off period from January 16-February 24. Target price will be \$11.90 per cwt, the statutory minimum, and national average loan rate will be \$5.

● **CANADA** is investigating possible subsidies by the Netherlands and Denmark on canned ham and canned processed ham exported to Canada.

## Israel faces squeeze on citrus exports

Our Correspondent reports on a growth in competition

PRESSURE on the British citrus markets is being stepped up this year by the delivery of a million more 15kg cartons from Israel than last season, when rain, sleet and snow at critical times harmed otherwise exportable fruit to the extent that much of it had to be sold domestically for processing.

The Israeli season, during which Britain will import 9m cartons, now runs from August to June, with 85 per cent of shipments covering the October-May period.

Like Spain, which also supplies the UK with around \$50m worth of citrus a year, Israel has been putting more emphasis on "easy-peelers" which will arrive continuously from January to May.

An addition to the range of Jaffa grapefruit this season will be offered in boxes with yellow labels reading "Autumn Selection" and containing the products of a special selective picking of fruit for quality and early maturity in the groves that

ripen first in the country. These commanded premium prices.

Israel's Citrus Marketing Board claims to have studied UK market requirements more closely than before and to have brought deliveries correspondingly nearer to them. The intelligence on which such progress is based has been helped by the fact that supermarkets, whose scale and sophistication make for effectiveness in market appraisal, now buy more than half the Jaffa consignments to Britain.

Shamoutis, which will account for almost 70 per cent of the 6.25m cartons of oranges due to arrive by sea in June, has been a standout this season where a year ago they were scarce. Quality control has been tightened, and repacking will be done where necessary. Cold storage is available for all fruit until it is sold.

To speed delivery in the interests of freshness, fast Scandinavian ships have been chartered, reducing rival Spain's advantage of proximity. Promotion, mostly directed at the trade, has been intensified and will cost about \$400,000 this season.

At the production end, further efficiency is being sought by breeding dwarf varieties of trees for easier picking and by experiments with computerised robots that would eliminate picking.

Extra market pressure is also coming this year from Spain, the increase in whose deliveries, estimated at 11.5 per cent, will be only slightly less than that of Israel's.

Israel expects more problems from Spain in the future. These have been discussed in London recently by Mr H. Gruper, Israel's Minister of Agriculture, who said his country was seriously concerned that the protectionist measures of the EEC would, on Spain's accession to it, radically alter the trading potential for Israel, as well as for other Mediterranean producers.

## EEC beef mountain expected to double

By Our Commodities Staff

THE Common Market beef mountain is expected to end this year at nearly double the end-1982 level.

In its latest International Market Review, Britain's Meat and Livestock Commission (MLC) estimates end-year stocks in the community at 300,000 tonnes up from 200,000 a year ago.

But it expects a modest fall next year to about 270,000 tonnes.

The combination of increasing production and a weak market has resulted in an increase in support buying this year. MLC forecasts that purchases by national intervention boards on behalf of the community will reach a record 450,000 tonnes.

EEC reduction of beef and veal in 1983 is estimated to have raised 211,000 to 268,000 tonnes while consumption is put at 190,000 tonnes down 5,000.

Consumption is projected to rise 110,000 tonnes in 1984 with production up 130,000 tonnes.

● **THE MLC Commissioners** have rejected a plan proposed by the French from Extension Treaty (MET) to impose a new statutory levy on producers to boost production funds.

The proposed levy, which would have required an Act of Parliament, would have raised an extra £2m a year to add to the £20m of the common market's £10.5m levy income which already goes for promotion.

The commissioners reaffirmed their support for meat promotion activity but said yet another statutory levy would not be entertained except in the most extreme circumstances.

## Bread-wheat offer angers farmers

BY OUR COMMODITIES STAFF

AN OFFER of "cheap" bread-making wheat for use in livestock feed today is likely to arouse little commercial interest but considerable annoyance in the UK farming community.

Under a scheme to cut its growing surplus the EEC is authorising the cut-price sale of 2m tonnes of bread wheat for this purpose. 150,000 tonnes of it in Britain. But for British buyers the special offer price will be higher than the ruling market level.

The minimum price set for today's selling tender is 205.39 a tonne European Currency Unit (ECU), the same as in other Community currencies. But the price is translated into national currencies at

the so-called "green" rates of exchange, not the real commercial rate.

In Britain's case the "green" rate is well below the real rate so the offer price works out at £127.07 a tonne, well above the going market price.

The price of bread wheat on France's Rouen market is a little less than the British price but because the "green" franc is below the real franc, traders will be able to take up the EEC offer at a highly attractive price equivalent to about £112 a tonne.

The offer is also likely to be attractive on most other continental markets.

The arrangement has caused considerable bad feeling among British livestock

producers and animal feed compounders.

Livestock sector leaders have been campaigning for EEC grain stocks to be used to help struggling livestock producers, particularly in the pig sector, and the plan was welcomed when it was first announced.

Publication of the details persuaded many, however, that the scheme had been deliberately arranged to ensure that the "troublesome" British wheat would not benefit from it.

A seasonal rise in grain prices is likely as the ender series progresses but this is taken care of by a rising price for the ECU which will go up 2.57 ECUs (£1.59) each month.

## France outlines sugar terms

PARIS — The European Community must be allowed to export an amount of sugar equivalent to the average it has exported during recent seasons if it joins the International Sugar Agreement, French farm minister Michel Rocard said.

He told French sugar beet growers that the EEC's right to export the average of recent years must be guaranteed even if world prices fall and the rules of a new pact oblige other producers to curb exports.

The EEC does not belong to the current pact but M Rocard said that despite this it has limited exports and stocked sugar. He said the community must export during the current season the same amount of sugar as it sold in 1982-83.

Since output this year will be down, the EEC will be obliged to export stocks.

Reuter

## PRICE CHANGES

In tonnes unless stated otherwise	Dec. 19 1983	+ or -	Month ago
<b>Metals</b>			
Aluminium	£1060	-	£1060
Free Mkt	£140.00	-	£140.00
Copper	£295.50	-	£295.50
Cash 1 grade	£295.50	-	£295.50
3 mths	£295.50	-	£295.50
Cash Cathode	£295.50	-	£295.50
3 mths	£295.50	-	£295.50
Cash Troy oz	£175.125	-	£175.125
3 mths	£175.125	-	£175.125
Lead	£275.75	-	£275.75
3 mths	£275.75	-	£275.75
Nickel	£245.24	-	£245.24
3 mths	£245.24	-	£245.24
Pellets	£165.25	-	£165.25
3 mths	£165.25	-	£165.25
Quicksilver	£205.16	-	£205.16
3 mths	£205.16	-	£205.16
Tin	£2049	-	£2049
3 mths	£2049	-	£2049
Wolfram	£2418	-	£2418
3 mths	£2418	-	£2418
Zinc	£206.5	-	£206.5
3 mths	£206.5	-	£206.5
Producers	£206.5	-	£206.5

## LONDON OIL

Oil opened \$1.75 down but prices rose towards the end of the morning session. A stronger New York opening continued to strengthen the London market in this volume.

Crude oil firmed slightly in low volume, reports Premier Min.

Turnover: 1,411 (2,477) lots of 100 tonnes.

## SPOT PRICES

CRUDE OIL - FOB (8 per barrel)	Latest	Change
Arabian Light	£29.05	-0.05
Iranian Light	£27.80	-0.05
Arab Heavy	£26.05	-0.05
Mexico Sea (Porto)	£26.05	-0.05
North Sea (Brent)	£26.05	-0.05
African/Bonny	£26.05	-0.05
Producers	£26.05	-0.05
CRUDE OIL - CIF (8 per barrel)		
Heavy fuel oil	£26.05	-0.05
Producers	£26.05	-0.05

## GOLD MARKETS

Gold rose \$14 an ounce from Friday's close in the London bullion market yesterday to finish at \$374.375. The metal opened at \$374.375 and traded in a very narrow range of \$374.375-\$374.375.

In Frankfurt the 121-kilo bar fixed at DM337.575 per ounce against DM341.125 (\$382.58) and closed at \$374.375 from \$377.375.

In Luxembourg the dollar per ounce equivalent of the 121-kilo bar at the fixing was \$376.45 from \$381.75.

In Paris the 121-kilo bar was fixed at FF102,500 per kilo (\$377.48 per ounce) in the afternoon compared with FF102,500 (\$377.90) in the morning and FF103,000 (\$379.93) on Friday afternoon.

In Zurich gold finished at \$375.575 from \$374.375.

Month	Year's day	+ or -	Business Done
Dec	375.575	-	375.575
Jan	375.575	-	375.575
Feb	375.575	-	375.575
Mar	375.575	-	375.575
Apr	375.575	-	375.575
May	375.575	-	375.575
Jun	375.575	-	375.575
Jul	375.575	-	375.575
Aug	375.575	-	375.575
Sep	375.575	-	375.575
Oct	375.575	-	375.575
Nov	375.575	-	375.575
Dec	375.575	-	375.575

Month	Year's day	+ or -	Business Done
Dec	375.575	-	375.575
Jan	375.575	-	375.575
Feb	375.575	-	375.575
Mar	375.575	-	375.575
Apr	375.575	-	375.575
May	375.575	-	375.575
Jun	375.575	-	375.575
Jul	375.575	-	375.575
Aug	375.575	-	375.575
Sep	375.575	-	375.575
Oct	375.575	-	375.575
Nov	375.575	-	375.575
Dec	375.575	-	375.575

Month	Year's day	+ or -	Business Done
Dec	375.575	-	375.575
Jan	375.575	-	375.575
Feb	375.575	-	375.575
Mar	375.575	-	375.575
Apr	375.575	-	375.575
May	375.575	-	375.575
Jun	375.575	-	375.575
Jul	375.575	-	375.575
Aug	375.575	-	375.575
Sep	375.575	-	375.575
Oct	375.575	-	375.575
Nov	375.575	-	375.575
Dec	375.575	-	375.575

Month	Year's day	+ or -	Business Done
Dec	375.575	-	375.575
Jan	375.575	-	375.575
Feb	375.575	-	375.575
Mar	375.575	-	375.575
Apr	375.575	-	375.575
May	375.575	-	375.575
Jun	375.575	-	375.575
Jul	375.575	-	375.575
Aug	375.575	-	375.575
Sep	375.575	-	375.575
Oct	375.575	-	375.575
Nov	375.575	-	375.575
Dec	375.575	-	375.575

Month	Year's day	+ or -	Business Done
Dec	375.575	-	375.575
Jan	375.575	-	375.575
Feb	375.575	-	375.575
Mar	375.575	-	375.575
Apr	375.575	-	375.575
May	375.575	-	375.575
Jun	375.575	-	375.575
Jul	375.575	-	375.575
Aug	375.575	-	375.575
Sep	375.575	-	375.575
Oct	375.575	-	375.575
Nov	375.575	-	375.575
Dec	375.575	-	375.575

Month	Year's day	+ or -	Business Done
Dec	375.575	-	375.575
Jan	375.575	-	375.575
Feb	375.575	-	375.575
Mar	375.575	-	375.575
Apr	375.575	-	375.575
May	375.575	-	375.575
Jun	375.575	-	375.575
Jul	375.575	-	375.575
Aug	375.575	-	375.575
Sep	375.575	-	375.575
Oct	375.575	-	375.575
Nov	375.575	-	375.575
Dec	375.575	-	375.575

## BRITISH COMMODITY PRICES

Three months	Dec. 19 1983	+ or -	Month ago
<b>BASE METALS</b>			
Zinc	£206.5	-	£206.5
3 mths	£206.5	-	£206.5
Copper	£295.50	-	£295.50
3 mths	£295.50	-	£295.50
Aluminium	£1060	-	£1060
3 mths	£1060	-	£1060
Nickel	£245.24	-	£245.24
3 mths	£245.24	-	£245.24
Lead	£275.75	-	£275.75
3 mths	£275.75	-	£275.75
Iron	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Steel	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Coal	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Gas	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Electricity	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Water	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Waste	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Food	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Textiles	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Chemicals	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Pharmaceuticals	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Medical equipment	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Transportation	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Communication	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Recreation	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Education	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Health	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Environment	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Energy	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Technology	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Space	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Defense	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Government	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
International	£20.00	-	£20.00
3 mths	£20.00	-	£20.00
Global	£20.00	-	£20.00
3 mths	£20.00	-	£20.0











## FINANCIAL TIMES SURVEY

# ITALY

## BANKING, FINANCE AND INVESTMENT

The voracious demands of Italy's public sector deficit dominate the financial scene, leaving little for private borrowers—and that at punitive interest rates. This survey examines reactions of banks and other institutions

### Runaway public spending

IN ITALIAN banking there truly is no rest for the weary. This year the devastating and sordid Banco Ambrosiano affair finally slipped off the front pages, the bank's missing \$1.3bn an issue unresolved and the past involvement of the Vatican looking ever more dubious.

The arrival in August of Sig Bettino Craxi, Italy's first-ever Socialist Prime Minister, seemed a harbinger of change, his campaign replete with promises of action on the country's runaway public-sector spending.

But the sad truth is that Sig Craxi, for a variety of reasons, has been unable to tackle the financial system's "public enemy number one"—a £80,000bn (\$55bn) public sector deficit which next year is expected to rise to more than £100,000bn. The banking system, meanwhile, sits on the sidelines, furious about the way in which high-yielding Treasury bonds are drawing customer savings away, and frustrated by incredibly tight monetary controls which make the cost of loans well high prohibitive for many borrowers.

There is unanimous agreement that something must be done, and all the big and respectable guns have been turned on the problem of the public sector deficit, now running at a level of nearly 17 per cent of gross domestic product (GDP). This compares with a U.S. deficit, representing around 5 to 6 per cent of GNP, in the

By Alan Friedman

UK the ratio is below 3 per cent.

The International Monetary Fund (IMF), in a dramatically worded 12-page report, forecast disastrous consequences if Italy's finances were not soon put in order. The IMF letter referred to the deficit variously as a "cancer" and a "time bomb" threatening the Italian economy.

The independent-minded Bank of Italy published a new Bank of England-style bulletin last month warning that the Craxi budget just wasn't "capable in the short-term of bringing about such huge reductions in the public sector borrowing requirement as those indicated."

But no matter how much the establishment wails, the fact is that Italy's inflation rate, which

has averaged more than 15 per cent this year, is still more than twice as high as the average of its OECD counterparts.

The interest rate structure, including prime rate, discount rate and Treasury bond yields, is hovering in the high teens. Corporate borrowers find they need to pay anything from 20 to 25 per cent for money (while the recession has reduced credit demand this year) and, even with the abolition last June of Bank of Italy credit controls, the private sector is still likely to be crowded out by the Government's voracious appetite for deficit-battling Treasury bond issues.

"I sometimes wonder if we have a banking system at all," moaned one Milan-based banker whose bank is not part of the 90 per cent of the system which is state-controlled. "How can deposit rates of 10, 11 or even 15 per cent compete with much higher level government securities which offer 3 to 4 per cent real interest rates as tax-free investment?" he queries.

Other bankers in Rome and Milan agree, shaking their heads sadly and acknowledging that in reality the high-yielding Treasury bonds are "the only game in town." It used to be the case that most savers (Italy has a savings ratio of nearly 20 per cent, one of the highest

in the world) were content to deposit their money in banks.

The banks then "intermediated" the money, placing a significant portion in Government bonds. But the process of "disintermediation" has taken hold in earnest as Treasury issues with maturities ranging from a few months to seven years are being purchased directly by the public.

Strict exchange controls mean that Italian investors cannot really contemplate shipping their funds abroad. And the stockmarket, dominated by the loosely regulated Milan bourse, is too small and too risky to attract many small investors.

The same is true on the flip side of the coin: Italian companies, many of them chronically undercapitalised, do not go to Milan and raise capital on the bourse. So the normal route for small and medium-sized companies is to the bank, except that banks find themselves "forced" to charge loan rates which can be 10 to 12 per cent higher than their *de facto* (and unpublished) deposit rates.

In fairness to the banks, there are reasons why the margins can run so high. (This year the Italian banking association (ABI) estimates that average margins are about 4.6 per cent.) Years of credit controls from

the Bank of Italy—the agreed growth rate for private sector credit in 1983 was 14 per cent—have limited lending opportunities, forcing banks to make a return where they can.

#### Nominal return

Equally, stringent reserve requirements (the present system is aimed at achieving a level of 22.5 per cent of deposits) mean that a sizeable portion of bank deposits pay only a nominal 5.5 per cent—the prime rate as of last month was 18.75 per cent.

All of this adds up to an unhappy interest rate structure, making borrowing costs high and adding to the Government's own expenses. Some 60 per cent of the public sector deficit represents interest payments on outstanding government securities. Both the banks and the Government would like to see the whole interest rate matrix nudge downward, and indeed it has, by 1 to 2 per cent over the last 18 months.

The problem, however, as one economist puts it, is "chicken and eggish": Confindustria, the employers' association, says that banks should lower lending rates and this will help the Treasury to lower its rates on bonds. The Bank of Italy says its need to fight inflation requires a tight monetary policy. Who moves first? The answer has been neither.

What is the outlook then for 1984? The Craxi Government forecasts a 2 per cent growth rate, compared with a decline of more than 1 per cent this year. Likewise, the optimists in Rome speak of a 10 per cent inflation rate a year from now—but only in August did the monthly indicator drop to 13 per cent. Pragmatists would argue that Italy will be lucky to achieve a 1.5 per cent 1984 growth rate and a 12 per cent inflation rate.

Italy is a highly flexible economy, capable of rapid response to world demand, but the lire, although gently declining against most major currencies, is artificially strong outside the EMS, and this is unfortunate as West Germany is a major market for Italian exports.

Although some progress has been made on wage indexation—last January's reduction of the *Scala Mobili* (inflation-pegged wage index) was a major step forward and there are signs of more progress on this front—this is not enough. Public sector spending still needs huge cuts and neither the powerful Christian Democrats, Blackfriars bridge in the City of London and the affair is still unravelling.

It is not just the deficit which continues to overhang the banking scene, however. It is now 18 months since Sig Calvi's body was found hanging under Blackfriars bridge in the City of London and the affair is still unravelling.

In recent weeks the joint commission, set up by the Italian Government and the Vatican to discuss the Vatican's bank's liabilities for \$1.3bn of Ambrosiano funds channelled through Caribbean and South American dummy companies which the Vatican has acknowledged that it technically controlled, has concluded its lengthy discussions.

It now appears that the Vatican may well make a contribution towards the debts, but it remains unclear just how and when. Meanwhile a group of 83 banks led by NatWest and Midland continue with their legal actions against the successor bank, Nuovo Ambrosiano, for the recovery of \$450m of loans made to the collapsed Banco Ambrosiano holdings subsidiary in Luxembourg.

Nuovo Ambrosiano says it has no obligations under Italian law, and the prospect of a direct legal action against the Vatican Bank came closer last month when Touche Ross, the London accountants charged with running the old Ambrosiano Luxembourg holding company, hired a top London law firm to draft a writ against the Vatican's Institute for Religious Works (I.O.R.). The writ is seen as a last resort and most people hope it will not become necessary to sue the Vatican.

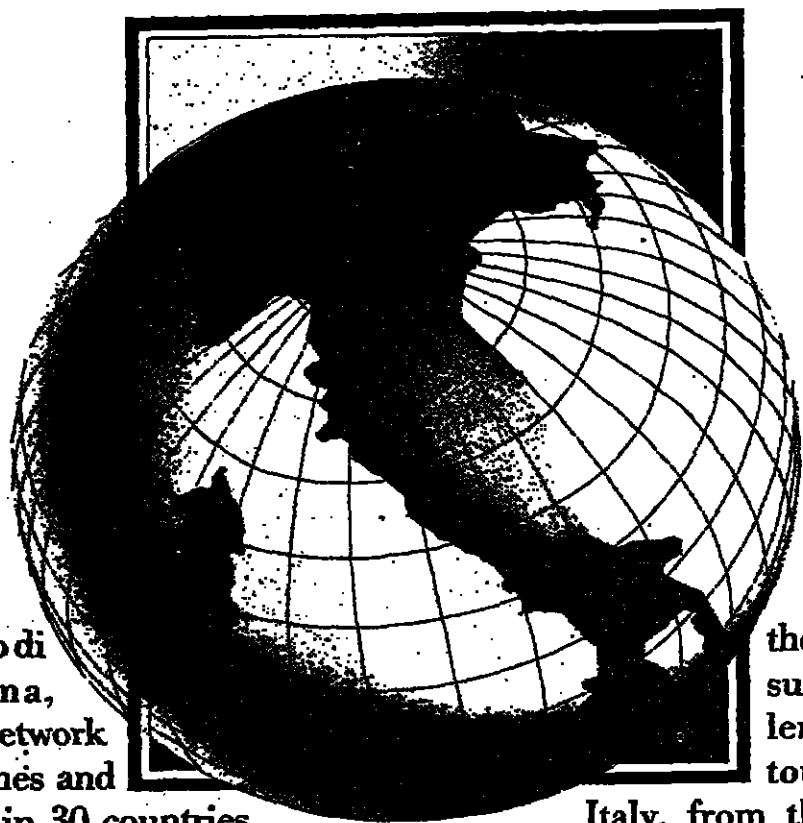
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Italy's Socialist Prime Minister Sig Bettino Craxi (right) presides over a Cabinet meeting last October with, on his left, Foreign Minister Giulio Andreotti and to his right Vice-Premier Arnaldo Forlani and Defence Minister Giovanni Spadolini

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We are owned by seven prime Italian banks. Three (Banca Nazionale del Lavoro, Istituto Bancario San Paolo di Torino, I.M.I. - Istituto Mobiliare Italiano) are from the public sector. The others (Banca Popolare di Milano, Banca S. Paolo - Brescia, Credito Emiliano, Credito Romagnolo) are leading local banks in their regions. Their total assets approach 150,000 billion lire (US \$ 109,500 million approx).\*

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\* \$/Lit. rate as at 31.12.82

## ITALIAN BANKING II

# Fragmented system with wide range of institutions

### Structure

ALAN FRIEDMAN

IN ITALY, to a larger degree than in any other Western industrialised nation, the banks are the mainstay of the country's financial system. While a wide range of domestic and foreign stock markets, Euro-bond investments and various special investment funds is on offer to the average British saver, Italians have no such luxury of choice. Rigidity is the word when it comes to opportunities for Italian savers. The stock markets are small and exchange controls make it impossible to consider offshore investments without incurring heavy penalties.

When a company considers borrowing, it considers banks. When a private investor considers investing, he considers banks or Italian Government securities. In either case he is going through a Government-controlled system; around 90 per cent of Italy's 1,085 banking institutions are state-controlled.

Italians save more per capita than most other people in the world. Their savings ratio of nearly 20 per cent places them alongside the Japanese in terms of conservative personal financial management. The historical and cultural traditions of Italian savers are such that even during a period of high inflation (this year the average has been around 15 per cent), they continue to save. The Italian Bankers' Association (ABI) estimates that total deposits in the Italian banking system rose by 19.5 per cent between 1981 and 1982, reaching a level of 1,348,624bn last year.

The largest portion of deposits are with the savings banks, of which there are 90, including the giant Cariplo, the Milan-based group which ranks as Italy's sixth largest bank. Most of the savings banks are tiny, however, many having only a single branch. Last year the savings banks had 27 per cent of all deposits.

The Italian banking system is highly fragmented and contains a broad panoply of different types of institutions. There are three "banks of national interest," which are allowed to operate nationwide branch networks. These are Banca Commerciale Italiana, Credito Italiano and Banco di Roma, the second, third and fifth largest banks respectively. All three are controlled by IRI, the state holding company.

The national interest banks, with 917 branches, account for 72 per cent of Italy's 1983 branches and last year held 11.5 per cent of total deposits.

Six public credit institutes, also state-controlled, account for 13.7 per cent of the branch network (1,761 branches) and hold nearly 19 per cent of total deposits. The largest among these, Banca Nazionale del Lavoro, is also Italy's top-ranking bank.

There are some 650 small rural and agricultural banks, which together have 1,130 branches but only 4 per cent of all deposits. Some 320 ordinary banks, many of them private, hold nearly a quarter of deposits.

### Misleading

Italian banks are among the most profitable in the world but their net profit figures can be misleading because of the extremely rigid system of state control, which manifests itself through reserve requirements, limits on branching and, until recently, credit controls. The profitability is the result in no small extent to the sheer efficiency of banks in the transfer of funds. It can often take weeks for cheques to clear between two banks, even in the same city, and this provides the institutions with an interest-free float. In addition, the banks employ margins which would make many a British banker salivate.

Although the Italian Bankers' Association says the average margins this year are running at 4.6 per cent, it is not uncommon for banks to charge up to 10 per cent more on loans than their deposit rates. The reasons for this differential are bound up in the rigid control of the system, a system which in large part is orientated towards helping the Government to fund its ever-increasing public sector deficit.

Reserve requirements are now aimed at achieving a 22.5 per cent share of all deposits. Banks receive only 5.5 per cent interest from the central bank on reserves and also must place 4.5 per cent of new deposits in medium-term bonds. Professor

### ITALY'S TOP TEN BANKS

(L. bn)

	Total deposits 1983	1981	1982	1981
Banca Nazionale del Lavoro	59,971	45,166	48.4	45.7
Banca Commerciale Italiana	43,613	35,453	58.5	46.1
Credito Italiano	32,983	29,518	61.3	37.5
Istituto Bancario San Paolo di Torino	30,438	23,663	91.6	34.3
Banca di Roma	28,626	27,414	88.8	31.6
Cassa Rips. Prov. Lombarda	24,758	23,415	91.3	34.0
Banco di Napoli	22,490	19,176	6.9	3.6
Istituto Mobiliare Italiano	21,790	19,389	144.7	72.1
Monte dei Paschi di Siena	21,695	16,468	32.6	18.8
Consorzio Cred. Opere Pubbl.	19,731	20,014	133.9	4.9

Source: Il Mondo ranking of 800 banks.

Mario Monti, economic adviser to Banca Commerciale Italiana, says this is one of the disincentives to deposit-taking in Italy.

Last year Professor Monti co-authored a report which called for the abolition of "credit controls" and greater competition among banks. This year the Bank of Italy finally removed formal credit controls, but "formal" is the key word.

Although banks are now theoretically free to lend as they wish, the reality is that telephone calls from the Bank of Italy and summonses to Rome still exert what is politely referred to as "moral suasion". Real credit freedom is still far away. As it happens, recession had made the central bank's fears of a credit explosion somewhat overdue. A 14 per cent limit in credit expansion was agreed for the 12-month period ending this month but companies have not been pressing the banks for loans.

The Government's stiff controls have been designed to combat inflation but also to make sure there is a supply of the public savings for "Titoli," Government securities, which are used to offset the public sector deficit — 120,000bn (\$55bn) this year and still rising. In the past the banks would "intermediate" a chunk of the public's deposits by then purchasing the high-yielding Government bonds. But recently the public has been reasoning (quite rightly) that a 17 or 18 per cent tax-free return from Treasury bonds is more attractive than a 10 to 12 or even 15 per cent deposit rate from banks. Thus the process of "disintermediation" has the banks worried.

Last December, for example, the banks held 37.8 per cent of outstanding Government securities (with the Bank of Italy holding 11.5 per cent and the public 50.7 per cent directly). By September last the banks' share had declined to 33.8 per cent and the public's holdings had risen to 58 per cent. This is understandable, since Treasury

bonds pay a real rate of interest of 3 to 4 per cent, while most bank deposits generate a return just below the inflation level.

Professor Monti—who is seen by some in Rome as a one-man shadow Bank of Italy—says the entire Italian interest rate structure must be brought lower. "This, however, is easier said than done," he says. The Government is afraid of what would happen to its bond programme if rates dropped and the banks feel they cannot afford to drop deposit rates for fear of losing still more deposits to the Government securities market. "All of this makes the banking system a hidden tool of fiscal policy. This has traditionally minimised the political cost of huge Government deficits but we must go on this way indefinitely," warns Professor Monti.

### Consumption

Along with other critics of the government of Prime Minister Bettino Craxi, Professor Monti says that something must be done to reduce public spending in Italy, a large part of which goes on consumption rather than investment for the future. In a recent analysis he predicted that even if the Government can hold the 1984 public sector deficit to 120,000bn (which hardly anyone believes possible), real interest rates will remain constant or rise. "To achieve a decline in real interest rates the deficit would have to be 2,000,000bn next year and that is not going to happen," he explains.

The Monti critique goes further, touching on the repercussions of the Banco Ambrosiano scandal. Italy does not have a national insurance scheme for depositors and although several senior bankers favour such a scheme, it looks like a political impossibility. "We have not learned the lesson of Ambrosiano," declares Professor Monti. "There is still no depositors' insurance system."

## Decline in international loans

### Borrowing

PETER MONTAGNON

TO JUDGE by the views of the International Monetary Fund, Italy ought to be a leading candidate to become the Brazil of Europe.

In a letter last month to Sr Giovanni Goria, the Treasury Minister, Mr. Alan Whitmore, head of the IMF's European division, warned that Italy faced disastrous consequences if it failed to cut its budget deficit.

For many countries, such a disclosure would be enough to cut off the supply of foreign credit immediately. Yet Italy and its foreign bankers have long been used to living with the backdrop of large budget deficits and large deficits on the balance of payments.

Although the country does not rank as one of the foremost in Europe, it has always been an active and reasonably successful borrower.

Paradoxically enough, this year has seen bankers lulled into an even greater sense of security about Italy. Its current account balance of payments deficit is expected to be only 12,000bn for 1983 and its borrowings on international capital markets have dropped substantially.

In the first 11 months of the year it raised only \$2.8bn in medium term syndicated bank credits, according to figures compiled by Morgan Guaranty Trust. This compares with \$3.5bn in the same period of last year. Borrowing in international bond markets has also dropped to \$1.46bn from \$2.21bn.

In the early part of this year the absence of Italian borrowers from the syndicated loan market was something of a puzzle for international bankers. Some argued that the market had turned against Italy because of the unresolved legal issues surrounding the defunct Banco Ambrosiano.

Foreign bankers were particularly incensed at the Bank of Italy's refusal to support the

operations of Banco Ambrosiano Holding in Luxembourg, and actually went so far as to sue the successor bank Nuovo Ambrosiano to get their money back. Rumour abounded of an unofficial boycott by these banks on new Italian business.

Other bankers felt that Italy faced a problem because its previously heavy borrowing had used up much of the available space in lending bank balance sheets. Italy was said to be relying heavily on short term credit lines to meet its needs for foreign exchange.

Figures from the government bore out this view to some degree. In the first eight months of this year Italy's foreign debt rose to about \$55.5bn from \$50.9bn at the end of 1982 with much of the increase accounted for by short term borrowings.

### Improvement

Yet, as the year wore on, it became increasingly clear that two things had changed. First was the improvement in the external accounts which reduced the country's need for money. Second was a revival of domestic lending.

In September, for example, Eni, the state hydrocarbons concern, raised 11,000bn in the local syndicated loan market. This was the largest operation of its kind ever undertaken and the loan was subscribed by no fewer than 84 banks.

It followed hard on the heels of a 1150bn issue of floating rate bonds by the Montedison chemical concern which was oversubscribed even before lists opened. As liquidity on the domestic capital markets has improved, it has become less necessary for large borrowers to look abroad for their funds.

Nonetheless, Italy's approach to the syndicated loans market bears all the hallmarks of caution. The Bank of Italy, which monitors foreign borrowings, has always been extremely conscious of the margins paid by Italian entities.

Smaller loans place much less strain on the market than larger ones, and despite the generally rather difficult conditions in the syndicated loan market this year Italian borrowers have not faced much

of an increase in terms. Most deals are still done on a basis of a 1-1 per cent margin over Eurodollar rates, although, recently, Italy has returned to the market for loans based on a margin over the more expensive U.S. prime rate after a period of some absence.

Italy is a fairly active borrower in the international bond markets, though here it does tend to suffer from the fact that it is not regarded as a top credit risk. Bond investors are much more selective than banks in the Eurocredit market. As a result, Italian borrowers may find themselves paying a slight premium over other borrowers in these markets.

For example, the highway authority Anas recently raised

a DM 150m bond with a coupon of 8 1/2 per cent in the same week as the World Bank floated a DM 200m issue with a coupon of only 7 1/2 per cent. A 1100m floating rate note for Enel was badly received by the City even though this sector of the market had recently enjoyed a spate of very successful issues.

Bankers drew two lessons from the Enel experience. The first was that the sterling floating rate note market would not accept an indefinite sharing of terms. The second was an important one for Italy—despite the stichism which the Banca d'Italia sometimes displays, its borrowing capacity will always be to some degree limited by the country's high budget deficit and inflation rate.

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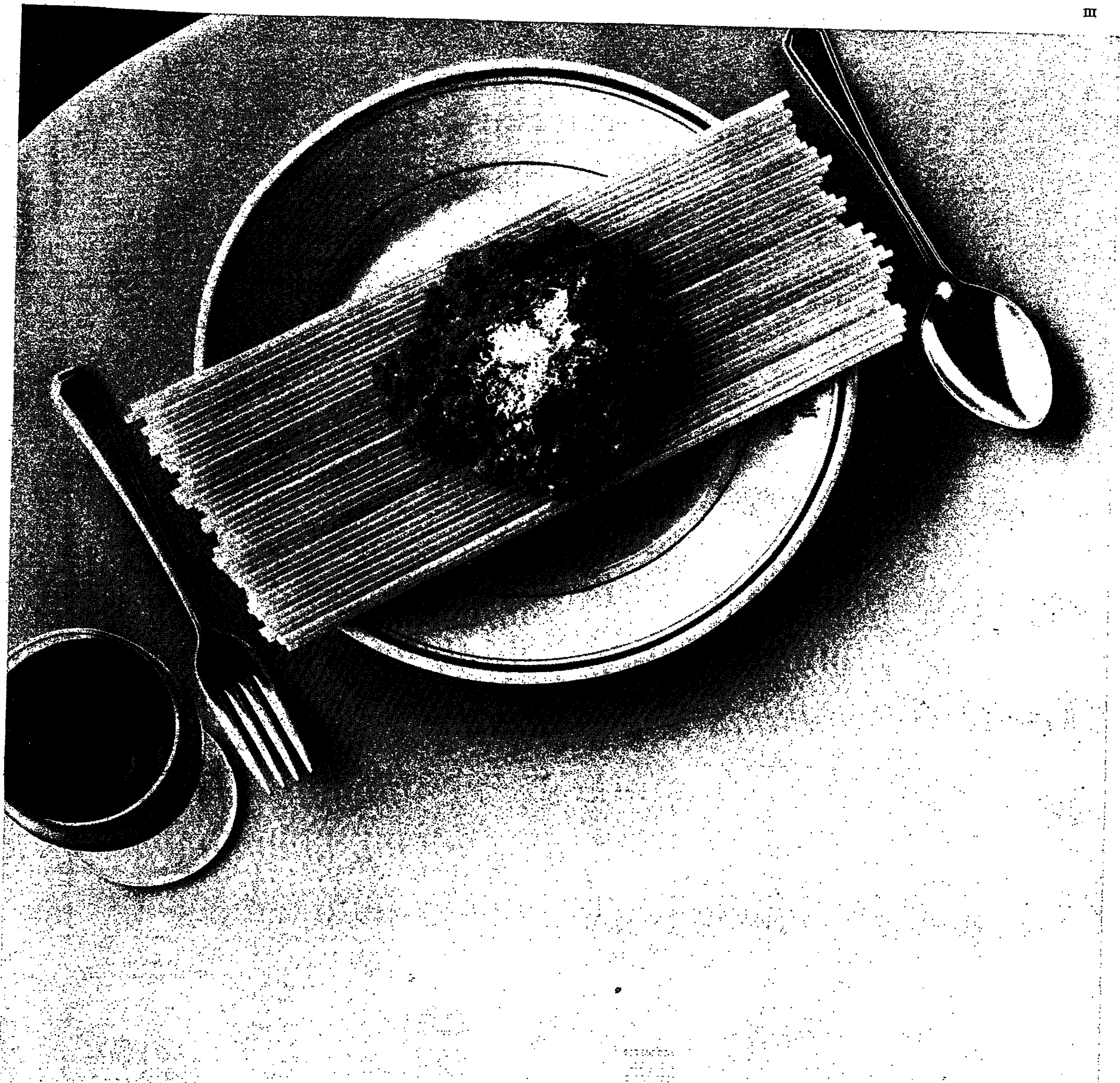
### 1982 Annual Accounts

	in million
Customers' deposits	5,778,162
Loans and advances	1,570,530
Financial investments	2,395,610
Total Assets	8,991,790
Capital Funds	141,985
Net profit for the year	50,98

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## State aid for industry

JAMES SUTTON

A FEW weeks ago the Italian Government unveiled a new company which is being specially set up to rescue the country's sugar beet refining industry. It presented to parliament a Bill to establish the Società per il Risanamento delle Imprese Bieticole-Saccarifere (RIBS).

RIBS should be empowered to spend up to L240bn in the next two years on taking stakes in several sugar refining companies which are in serious financial difficulties. The worst affected is Montesi which owes at least L87bn to farmers for sugar beet crops, and other companies between them owe a roughly similar amount. If the creation of RIBS, sponsored by the ministry of agriculture, is approved, it will inject funds into the ailing companies with a view to selling its stakes after five years by which time it is hoped the companies will have recovered.

## Crisis compounded

The weaker sugar beet refiners are in trouble because they failed to invest in new plant as Italian sugar beet production rose from the late 1960s onwards. They accumulated losses and debts which finally got to the point at which they could not pay the farmers who are now refusing to grow sugar beet — thus compounding the companies' crisis.

Assuming RIBS is approved in something like its original form, which is not certain, it will be a second test case of a new form of government intervention to help industries in difficulty — an investment company with limited aims and a fixed time limit on how long its participations may be held. The first of its kind was Società Per La Ristrutturazione Elettronica (REL), which is to invest L360bn in companies making electronic components, car radios and most important, colour televisions in association with Zanussi and Indesit.

The two investment companies are part of a long Italian tradition of the Government helping sectors in difficulty, particularly where employment may be at risk. The difference with RIBS and REL is that this time the authorities are trying to do the job more cleanly and less wastefully than in the past and within set time limits.

There are still many obstacles to be overcome for both companies. The birth of REL took several years, from the first difficult allocation of funds to agreement on the final form of the company, and REL has still

not received approval from the Common Market which looks critically at state aid for industry under its competition policy. RIBS is likely to be subjected to similar scrutiny.

The justification advanced by the Government for this kind of aid is that as Italy suffers perennially high interest rates and a permanent shortage of capital, the state has to step in to help the private sector offset these disadvantages. In the case of the electronics industry the difficulties could be said to be particularly of the Government's own making since it dithered far too long before deciding what kind of colour TV system to adopt, by which time the market had been laid open to well-prepared foreign competition.

No one denies that colossal sums of government money have been lost on rescuing companies that never recovered and perhaps should have been allowed to fail, while there are laws which enable companies to survive that would otherwise have gone under. At least part of the capital shortage that the country faces is due to the fact that so much is locked up in companies which do not have a future, but which it is considered important to keep going for political reasons.

It is almost unheard of for a company of any size in Italy to go bankrupt and disappear. If such a company cannot be kept going by any other device, it has usually in the past been handed over to the state holding companies IRI, ENI or EFIM. IRI is ranked in the category of special medium term lending insti-

losses are due to its forced acquisitions of rotten "assets" in the chemical and mineral fields.

So REL and RIBS must, if policy is really changing, avoid the terrible fate of GEPL. A company set up in 1971 to promote the "reconversion" of companies in financial or managerial difficulties with a view to aiding employment. No time limit for GEPL's intervention was fixed and the organisation has stakes in nearly 200 companies, employing about 25,000 people, and turnover of about L300bn. But it also has accumulated losses of L1,140bn at the end of 1982 and by June 30 this year had absorbed nearly L2,500bn of government funds of which it had disbursed L2,156bn.

## Barely salvageable

GEPL's empire contains a few reasonably strong companies, such as Maserati, the car maker but also many weak ones in almost every sector from engineering to tiles. Usually what has gone wrong is that either the companies were barely salvageable in the first place, or the arrival of the GEPL created a confidence that the company would never die, so no-one subsequently felt any pressing need to see it back in profit. Where profits are made they do not always come the way of GEPL. GEPL is owned 50 per cent by IMI (Istituto Mobiliare Italiano), the state-owned medium term finance corporation, with other stakes held by ENI, IRI and EFIM. IRI is ranked in the category of special medium term lending insti-

## PROFILE: FRANCESCO CINGANO



Sig. Francesco Cingano — "The problems of our economy and of others cannot be solved by monetarism alone."

## Academic with firm grasp of reality

FRANCESCO CINGANO, chairman of Italy's second largest bank, must be about the only person in Milan who stays in the city at weekends. Whereas most of Milan's financial elite would not be caught dead in the deserted city on a Saturday or Sunday — the lakes, the Riviera, the ski slopes and the Alps all beckon — Dr Cingano says he likes to remain in his apartment and read books on economic history.

The 60-year old chairman of Banca Commerciale Italiana (BCI) is not a brusque, cut-and-thrust Milanese banker. He is from a little town in the Veneto region of North east Italy, not far from Venice.

He is a quiet man with a sharp sense of humour who 40 years ago studied law but preferred French and English literature. He joined BCI in 1946, a few weeks after graduating from the University of Padua. "I entered BCI because my university suggested I should enter BCI," he recalls.

He has a strong interest in preserving art, and spends time as a director of the Fondo per l'Ambiente Italiano, the Italian equivalent of the National Trust. His academic interests are fulfilled by his membership on the board of the prestigious Bocconi University in Milan and by his work for the Mattioli Foundation for the study of economic history. Married with three children, Dr Cingano recently received the title of "Cavaliere del Lavoro", a distant relation of the British OBE.

## Slightly ruffled

Seated in his spacious office overlooking the Piazza della Scala, Dr Cingano looks slightly ruffled when asked to apply his knowledge of economic history to the monetarist policies pursued by the Thatcher Government in Britain.

He reckons that "the British experience has significance for all of Europe" and particularly praises the 1975 UK abolition of exchange controls. But he is no firm believer in the Milton Friedman school of thought: "The problems of our economy and of others cannot be solved only by monetarism." Like other Italians involved

in finance, Dr Cingano believes (along with the International Monetary Fund) that Italy "must achieve an economic policy which is far more rigid." He sees the present attempts by the Government of Prime Minister Bettino Craxi to cut public spending as "the minimum, the starting point." Also like other leading Italian bankers, Dr Cingano admits the difficulty of making any progress in the battle against Italy's spiralling public sector deficit.

## Secular arm

What about the way in which Italy's banking system, which is 80 per cent state-controlled, is used by the Government to supply funds for the deficit? Dr Cingano, chairman of a bank which is 80 per cent owned by IRI, a state holding company, is not in a position to make radical statements. But he puts his view across quite bluntly: "The banking system is the secular arm of a monetary policy which must always serve the Treasury's growing needs at the expense of Italian industry."

The banker, opines the BCI chairman, is thus limited in both his operational choices and in his managerial responsibility. The banks must fulfil the wishes of the monetary authorities, who "follow policies which are aimed at making-up for the absence of efficiency or contradictions of an irresolute national economic policy." This has "fattened" the profile of the Italian banking system and it is up to banks like BCI to operate as an "entrepreneurial concern."

How is this to be accomplished? Dr Cingano does not have all the answers. He refers to the expansion of international activities and to the development of corporate lending — all within the limits imposed by authorities, of course. There are frustrations apparent in the Cingano thesis, the frustration perhaps of a man who heads a 285-branch banking group which is inextricably woven into the Italian financial fabric. An aficionado of the academic side of banking history, he remains none the less a cool practitioner at heart.

ALAN FRIEDMAN

## ITALIAN BANKING IV

# Heavy call on national resources

tutions by Mediocredito Centrale, Credip, IASIF and a number of other institutions for the development of the south of the country, still one of the poorest parts of Western Europe. Loans by the special credit institutes rose from L8,424bn in 1980 to L14,689bn in 1982. Part of these funds are disbursed on concessionary terms under laws providing for subsidised loans at low rates of interest for certain industries or types of borrower. The Government is supposed to top up the loans.

The Government can also hand out funds for industry under special laws. The best known of these is No. 675 of 1977, which provided for subsidised investment of up to L4,500bn. Yet the law expired last year without a single lira being disbursed under it, partly because the banks would not agree the procedure under which funds would be handed out and partly because the EEC, whose permission was not sought until 1981, has so far refused to approve it.

The beneficiaries of law 675 would be mainly large companies, such as Finisider, the state steel concern and Montedison, the chemical company and would go to assist industrial restructuring, upgrading of old plants and investment in new. Fiat, though healthy, is due to receive substantial sums under this law for the launch of the Uno car, achieved without government financial assistance at the beginning of this year.

Another measure, Law 902 of 1976 was designed to assist small and medium-sized businesses in the centre and north of the country with investment. By the end of last year some 2,500 applications had been accepted and L500bn disbursed. The most recent law, approved in early 1982, provides L1,500bn for technological innovation, for which Fiat has been designated as the recipient of L234bn for cars and L10bn for industrial vehicles. Nothing has yet been paid, however, because of the usual bureaucratic difficulties.

Another law, which has had some effect, was Law 787 of 1978 which allowed banks to form consortia to rescue companies in temporary financial difficulties, and consolidate their debts. In the case of Pirelli and Stia Viacosa the law worked well, and both companies have recovered. But no

consortia were ever successfully put together to help SIR and Liquefiche, two failed chemical companies, mainly because their difficulties did not appear to the banks to be "temporary." They have since disappeared in large part into the maw of ENI.

There is also the Prodi Law, named after Professor Romano Prodi, a former Minister of Industry and now chairman of IRI. Otherwise called law 25 of April 1972, it gives the Government power to appoint a special commissioner to administer companies in financial trouble, and allow them to borrow from the banks under a Treasury guarantee. It thus offers a more favourable form of reorganisation than that which the law normally provides, but access to the Prodi Law is at the discretion of the Government.

## Another device

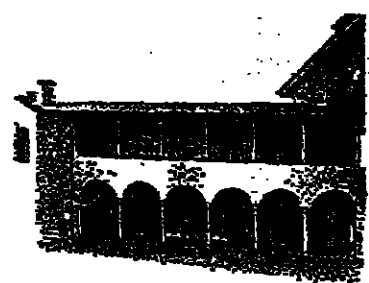
Though the Prodi Law does not in itself entail the Government making payments, it is another device which tends to divert funds from the bankier system away from the bankier concerns to the weaker companies whose future is often uncertain. A few weeks ago Parmalat, having altered the Prodi Law specifically to enable a small but politically influential publishing company, Kinaudi, to benefit from it, sharply criticised the law itself. The system of financing did not work, Parliament said, and many companies only financed themselves by not paying their current debts — thus accumulating further burdens. Few of the recovery programmes the companies drew up ever came to fruition and most of the companies were in permanent loss, with 40 to 50 per cent of their employees on state-subsidised lay-off. It was, naturally, difficult to sell the businesses to anyone except at great cost to the creditors.

Given those pungent criticisms, and the fact that with so much money, both government and private, diverted by law to companies which rarely have very good prospects, it is astonishing that so many reasonably healthy Italian companies do succeed both in investing — Italian investment levels at the beginning of the decade were among the highest in Europe — and in flourishing.

## Banca Popolare di Abbiategrosso

Financial year 1982	(in billion lire)
Funds administered	728
Customers' deposits	527
Advances in cash	189
Acceptances and guarantees	25
Capital funds	116
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## ITALIAN BANKING V

## Fresh initiative to improve supply of risk capital

## Merchant banks

JAMES SUTTON

THE PALAZZO, in the Piazza Venezia in Rome, used to be the home of Napoleon's mother. The walls and ceilings are magnificently frescoed, the floors are of polished marble. The inhabitants, however, are not courtiers: they sit at the sleek desks of the modern office, each with its personal computer. The principal floor of the palazzo has been transformed into a merchant bank.

Italfinanziaria Internazionale, owned by Istituto Mobiliare Italiano (IMI), the state-owned medium-term finance corporation, is one of the first of a new kind of financial institution for Italy — the banca d'affari, a merchant bank providing financial service and taking temporary stakes in providing companies. Along with Sodpa, owned by Mediobanca Centrale, situated near the Villa Borghese, it represents Rome's attempt to become the merchant banking capital of Italy.

## Perennial problem

The are aimed at solving the perennial Italian problem: lack of capital. Rare indeed is the Italian company which is well capitalised; many are chronically undercapitalised, relying far too heavily on bank borrowing for most of their funding. The problem has lately become acute. The colossal demands for the Government deficit makes interest rates at astronomical levels at a time when recession is eating into company revenues.

There are two basic reasons for the general shortage of capital. One is that the stock exchange has never succeeded in generating large amounts of risk capital, partly because it has been distrusted by investors for so long, and partly because the Government has always creamed off most savings to fund its own operations. However, the net issue of new shares on the stock exchange rose from L3,085bn (\$1.88bn) in 1980 to L7,195bn in 1981 and L6,040bn in 1982.

The other reason is that businesses are largely family-owned and reluctant to enlarge their capital base by selling shares to others — and thus diminish their control. Many Italian businesses are at a much earlier stage of development than their equivalents in, for example, Britain and in small companies the idea of bringing in new shareholders is often anathema. But even in one of Italy's big-

gest companies, Zanussi, the imperative of the family to keep absolute control has brought about the almost total suffocation of the company in debts.

Italian companies finance themselves mainly by borrowing from a network of banks—there is no shortage to choose from and a large Italian company will have accounts with up to a hundred. Although the commercial banks can only lend for a year at a time, in practice loans are rolled over from one year to the next and banks are in effect financing working capital.

There are also medium-term credit institutes, mostly state-owned or controlled, such as IMI, Mediobanca Centrale, Credito and many others, whose aim is mainly to provide medium-term funding for companies. Most of them obtain their funds from the commercial banks who subscribe to their bond issues.

This does not solve the problem of how companies can obtain more equity, and diminish the control exercised over them by the banks. If things are to change, the stock exchange must become a more attractive and easier place in which to raise capital—the forthcoming introduction of unit trusts is a step in that direction—and the mentality of the Italian entrepreneur must change too. The success of the new merchant banks and those that follow them depends heavily on these conditions changing.

The merchant banking idea received a strong endorsement from Dr Carlo Azeglio Ciampi, Governor of the Bank of Italy, in his annual address last May. The development of merchant banking activities would help medium-sized firms grow bigger and stronger and would pave the way towards stock exchange listing. Looking to the future these activities could usefully complement the operations of unit trusts and increase their investment opportunities.

The banks, he suggested, could set up incentives to do this, possibly in collaboration with other participants.

The only concern which has for long operated like a merchant bank on the lines Dr Ciampi suggests is Mediobanca, controlled by Credito Italiano, Banca Commerciale Italiana and Banco di Roma. It has sizeable participations in many of the larger Italian companies and acts as an imaginative broker in reconciling and advancing their interests. But its activities are mainly confined to large, established concerns, not to the rising small and medium-sized companies.

Italfinanziaria Internazionale is

the spearhead of IMI's attempt, under Dr Luigi Arcuti, to become a force in Italian merchant banking on a par with Mediobanca. It was set up in its present form at the end of 1981 with capital of L1,200bn which is now being raised to L1,700bn. Its aim is to take stakes of up to 20 per cent in medium-sized companies with sound management, advanced products and good development prospects—companies, as Dr Cesare Rosa, the managing director calls them, that qualify like the fine wines of Italy for the label DOC (Denominazione di Origine Controllata).

## Investment stakes

By the end of June this year, when the bank reported a net profit on the year of L4,780bn, it had L1,370bn worth of investments of different kinds on its books. It owns 10 per cent of Comau, the Fiat subsidiary which is a world leader in factory automation, a 20 per cent holding in Buffetti, a traditional office materials business, 20 per cent stake in Inglen (International Glass Engineering) of Florence, which specialises in building glass making plants and several others, in biomedics, clothing, ceramics and so on.

The intention is to hold stakes in the companies for up to five years (two to three years in the case of the larger companies), providing them in the meantime with financial services from the rest of the IMI group (Italfinanziaria itself has only a staff of 15) and then launch them on the stock exchange. In three to four years time the course will have changed, with the arrival of the union trusts, says Dr Rosa, who is 44.

Sodpa, Italfinanziaria's rival, was established about the same time as Mediobanca Centrale, which finances a chain of regional medium-term credit institutes and also provides much of Italy's export finance. It is oriented towards rather smaller companies than is Italfinanziaria. So far it has taken two participations, both in clothing manufacture, but it is studying proposals for investment in engineering and other sectors. It envisages holding stakes in its companies for up to five years. "We want to get into companies during a period of growth," says Dr Giorgio Telfini, the managing director.

Several other banks are planning to set up merchant banks, and a number of Italian banks are setting up merchant banking operations in London, which among other things should earn them experience and knowhow in a financial centre where this sort of activity is better known.

If the merchant banks are

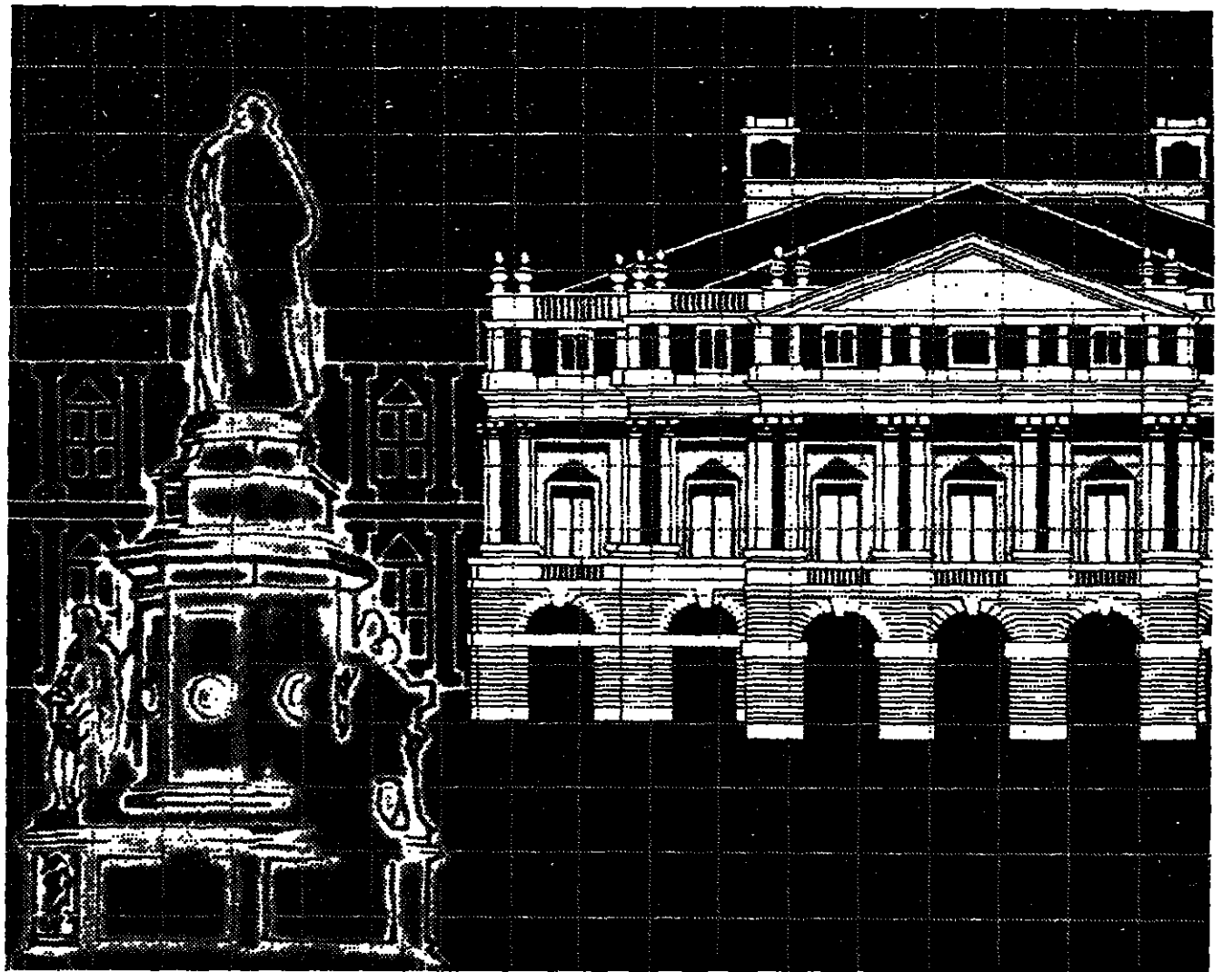
still only in their initial phase, venture capital has barely got under way in Italy. However, one company, Finnova, has been set up by a group of industrialists, including Olivetti and Mondadori, with the participation of IMI through Italfinanziaria, to provide venture capital finance. The difference between venture capital and the merchant banking is that venture capital is more of a high risk operation, involving investments in companies often in their embryo, with a good idea or a product but not necessarily an established market.

The head of Finnova is Sig Jody Vender, a 33-year-old Milan-based financier. Finnova has studied hundreds of projects and so far taken one participation—a 40 per cent stake in Data Consort, which has annual sales of L20bn in telematics and electronic alarms—though Sig Vender stresses that Finnova's ideal investments would be in companies with L5bn to L40bn turnover. The emphasis is on new ideas and advanced technology.

Sig Vender is a somewhat gloomy prophet of venture capital in Italy. In a speech to a conference on the subject organised by Olivetti (which has had considerable success with venture capital investments in the U.S.) in Venice last summer, Sig Vender spelt out the hindrances to venture capital in Italy.

They were, he said, the very high rate of capital gains tax which would make it unattractive to sell holdings; the fact that tax exemptions favour those who invest in Treasury bills at the expense of equities; the inadequacy of the stock exchange as a place to realise an investment; the lack of interest by big companies in investing to acquire technology; the problems many entrepreneurs have in drawing up a business plan; and their reluctance to admit outside shareholders.

Much of what he said could have been applied to the new merchant banks, their existence is proof of the fact that attitudes and methods in Italian finance are changing, and of a belief that they will change further.



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## Emergence of significant new growth sector

## Leasing

JAMES SUTTON

DESPITE ALL the huffing and puffing of the past few years about the need for the Italian banks to change and innovate, the innovations that have actually occurred have been few. Among those that have, by far the most sweeping, significant has been the growth of leasing.

In many ways Italy is a country peculiarly suited to leasing. Capital is always scarce and businessmen like to be flexible and discreet. A businessman who has a network of leasing contracts for different parts of his operations with different leasing companies—some of them even outside his home town—has the security of knowing that no single finance company or bank has overall knowledge of all his affairs.

## Promising avenues

It is no coincidence that it was the foreign banks, which began coming to Italy in large numbers in the 1970s, which gave a major push to the development of leasing, as they did in other areas of banking. This move was immediately matched by Italian banks, many of which realised that in view of the blocked development of ordinary banking operations, leasing, factoring and other aspects of "para-banking" offered some of the more promising avenues of development.

In 1980 Italy ranked as the third country in Europe in the value of new leasing contracts, after Britain and France but ahead of West Germany. Between 1978 and 1981, new leasing contracts grew at between seven and 23 per cent a year in real terms, while the value of existing contracts rose each year by between 14 and 20 per cent.

The major banks almost all

set up leasing subsidiaries and the savings banks and other groups of banks formed consortia to enter the new market. Foreign banks such as Barclays set up a chain of leasing companies throughout the country, often in partnership with local banks to create a blend of local knowledge and imported technical expertise.

The biggest leasing company in Italy today is Centroleasing, owned by a complex consortium of savings banks and other institutions. Last year it had leasing revenues of L249bn and leased assets worth L462bn. In second place was Locafit, owned by Banca Nazionale del Lavoro, whose leasing revenues rose by almost 50 per cent in 1982 over 1981 to L237bn.

The classification also showed Barclays Leasing in seventh place, with revenue of L120bn and Citibank, part of Citibank, just behind in eighth place with revenues of L107bn. Barclays Leasing Income rose 67 per cent in 1982 and that of Citibank by 77 per cent. Citibank also made easily the biggest profits, L11bn against Centroleasing's L5.9bn and Barclays Leasing's modest L1.7bn. Barclays has suffered the effect of heavy losses made on a leasing contract to a Turin company which went into receivership.

Although the banks are important as owners of leasing companies, major participants in the table include Olivetti Leasing (14th place in 1982) and BMW Leasing (18th), each operating in their specialised fields.

The basic problem the major leasing companies complain about is that the market is now becoming overcrowded. There are considered to be too many leasing companies operating in Italy—about 3,000 at the last count—when one takes into account the great number of small local organisations reflecting a fragmented banking system. They take away business from the big groups. The most recent figures—for the first nine months of this year—show growth in new

contracts of 11.6 per cent compared with the year before, substantially below the rate of inflation.

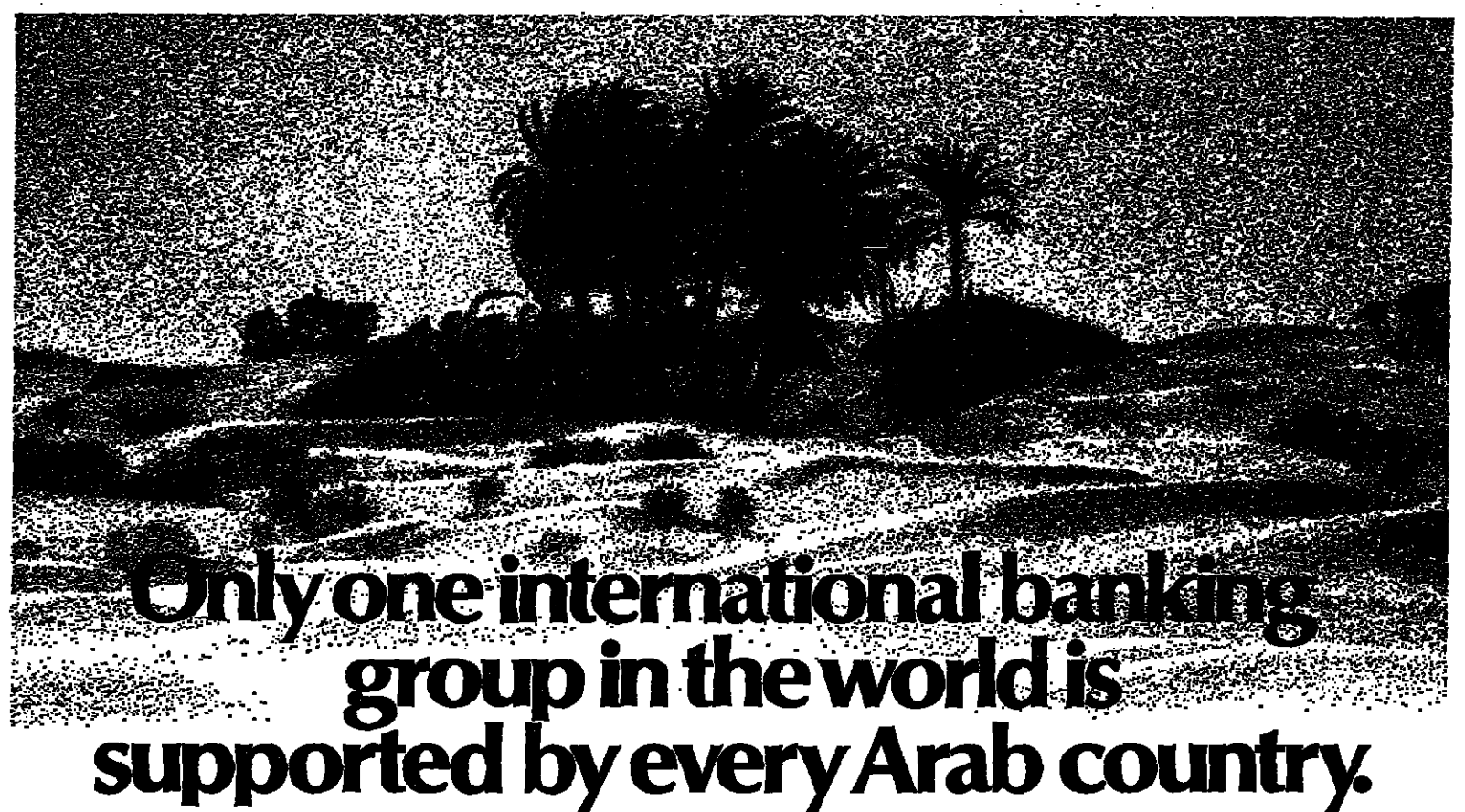
In an increasingly competitive market one possibility for the major companies is to move into more sophisticated forms of leasing. A few weeks ago Locafit announced the creation of Innofit, the vehicle by which it is going into operative leasing. This is the form of leasing whereby the leasing company not only finances the transaction but also handles the insurance, servicing, maintenance and technical control of the asset being leased, whether a computer or a car.

## Useful device

With operative leasing the leasing company often re-acquires the asset at the end of the leasing period. It is a particularly useful device in fields such as automation equipment where obsolescence can be very rapid but for the leasing company it requires a far higher level of sophistication and managerial time. Looked at another way, however, it could simply be called financed renting.

In any event the leasing companies offering operative leasing need additional know-how and Innofit is a joint venture between Locafit and the French operative leasing company, Innoval, Innoval is taking 20 per cent of Locafit and Locafit 10 per cent of Innoval but the major transfer is likely to be of know-how.

The new company Innofit has already made an agreement with Olivetti to set up an operative leasing company and is to do the same with Volvo BM of Italy for the distribution of industrial vehicles and earthmoving equipment and with the Italian importers of British JCB earthmoving machines. In these arrangements the financial backing and administration will be handled by Innofit while the other partner will deal with sales and maintenance.



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## RONCAGLIA OPR: SPACE AGE TECHNOLOGY FOR GRAIN MILLING

Ever-increasing energy costs compel the flour milling industry to give serious consideration to the daunting economic prospects involved in a new plant - buildings, fuel, transportation and services.

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As the world moves towards the 1990's, the Roncaglia OPR System meets the challenge of this decade by giving the flour milling industry a concept of production enjoyed by many since 1953 that at the same time meets the need for space-age technology.

Roncaglia OPR mills can be part of an existing plant or they can be "turnkey" operations from cereal intake to final packing and bulk handling.

Roncaglia OPR mills can be housed with a minimum of fuss in any simple building of 5 metres height. They can be producing flour from wheat as from maize, oat, barley, rice, rye, sorghum, millet in a matter of months from first ordering the plant. Even mills as large as 500 tons of wheat per 24 hours capacity average only 12 months from inception to full production.

This speedy completion of the project is entirely due to the unique Roncaglia OPR Milling System.

The first consideration is the elimination of the planifier which requires large buildings with conventional installations. This need has been overcome by the patented air-sifter, which uses air currents and a simple sieve. The air-

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The Roncaglia OPR mill of whatever capacity can be housed in any simple building of five metres clear height. It is the only mill that can be built up from a small initial unit, or can have a number of units running side by side, milling different cereals. It is the only plant that does not need considerable

remodelling for changes in flour specifications. No other mill-building company can guarantee its products for 10 years nor can anyone assure a break roll life of as long as six to eight years without refuting. It reduces maintenance to minimum levels and offers economies in staffing. The concept of large buildings inevitably means high energy and maintenance costs on top of the cost of the construction itself. Site selection and preparation can involve much expense and difficulty, especially if there are environmental complications.

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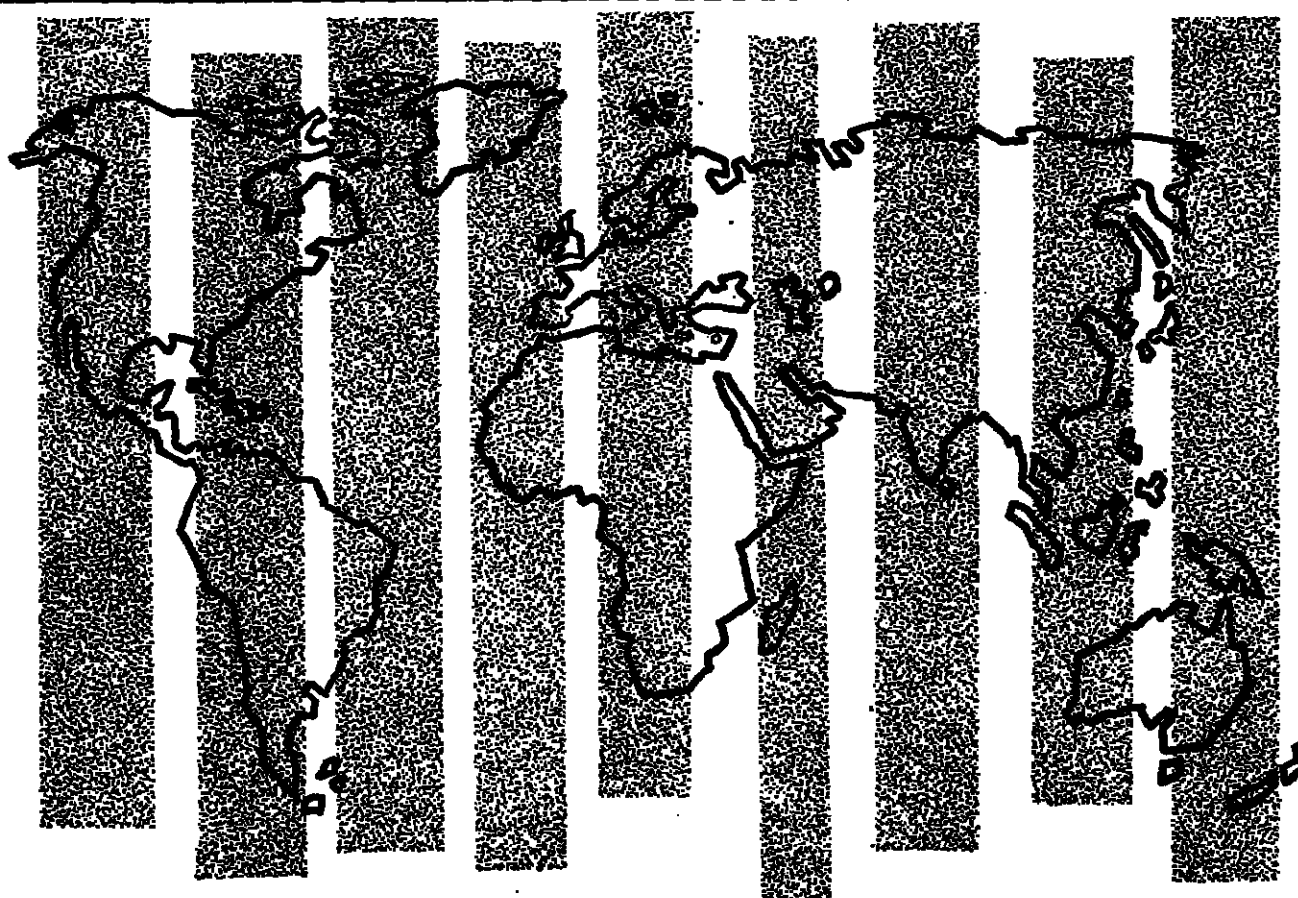


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## ITALIAN BANKING VI

### High cost of borrowing worries small businesses

**MICHAEL GRIFFITHS**, who runs a small business in Perugia, explains the financial problems which small and medium-sized businesses face and the inadequacies of the Italian banking system in overcoming them

While profits continued to be satisfactory he had little need for short-term borrowing. When profits started to decline he had little alternative but to increase bank overdrafts to finance working capital, and here his problem began. By background and experience he has little financial expertise and his problems are further compounded by the fragmentation and complexity of the Italian banking system.

It is not unusual to find a small company with overdraft facilities of say £100m (about \$240,000) spread between eight or 10 banks. His bargaining power to obtain best rates is thus reduced and he will be lucky to get an overdraft at a base rate under 23 per cent.

Even this does not represent his true cost. If he goes over his overdraft limit, he will be paying three to four points above his base rate on the excess. Further, he will pay a 0.125 per cent commission on the maximum sum he may be overdrawn. If for a few days a £10,000 overdraft goes to £15,000 he pays the commission on this sum.

The cost of money is further increased by the Italian system of "Giorni di Valuta" (value days) where an account will not be credited with the amount of a cheque from a bank outside that region for seven or eight days after it has been deposited (two or three days for a local bank cheque).

The result of all these factors will be to increase a base rate of 23 per cent to at least 28, if not 30 per cent.

Interest charges as a percentage of turnover have for many small Italian companies reached alarming levels.

It is a common complaint of Italian small businesses that Italy does not have a clear investment policy for small medium-sized businesses. Legislation is fragmented and characterised by many different schemes and bureaucratic procedures which discourage the small businessman. Moreover, legislation favours the large state controlled company, and Confindustria (the Italian business association) quotes the fate of a major state initiative for industrial reorganisation, Law 678, which allocated £1,000bn (£2.6bn) for industrial reversion schemes.

Some 30 per cent of these funds were allocated to small businesses but only £10m was actually used for this purpose. Over 70 per cent of funds, say Confindustria, went to large state-controlled companies, mostly to finance losses or maintain uneconomic workforces, and the rest to the Mezzogiorno, Italy's backward south. But all these "payments" have been made only in theory; no funds have yet been paid.

Subsequent schemes, like Law 46, favouring investment in specified high technology sectors, have again failed to finance investment in small/medium sized businesses. There is a major and urgent need, concludes Griffiths, to restructure the system of investment finance for small businesses.

#### More comprehensive

While recognising the important role played by the Mediocredito (Italy's medium term investment and trade finance organisation) in providing funds for investment in fixed assets at all levels of Italian industry, Confindustria sees the need for a more comprehensive approach to credit for small businesses whether short, medium or long term.

At the local level there exist over 50 consorti di fidi (small business credit consortia) who until now have been mainly concerned with short-term financing schemes, usually with an upper limit of £50m, repayable within one year. The consortium consists of local small businesses who guarantee for a fixed amount the loan, which has to be approved by a committee of members, plus the local bank providing the funds.

The local regional government, chamber of commerce and local branch of the Mediocredito make an annual contribution to a risk fund, which, the individual firm guarantees, leaves the bank with between 50 and 70 per cent of the risk involved. Throughout Italy these 50 consorti today have loans granted of about £1,000bn (£2.6bn).

Another important initiative at local level has been to agree base interest rates with local banks for members.

A recent initiative of Confindustria has been the formation of a national association, the Union-

confidi, of all the consorti with a view to coordinating their activities, to improving the bargaining power of small businesses with credit institutions at national level, and, most significantly of all, to tackling the question of medium-term finance for small businesses.

The lack of medium-term finance for small businesses is one of the major credit problems which they face. The difficulty exists because local Italian banks are not able or willing to grant medium-term loans, and the medium-term finance requirements of many Italian small businesses are too small to be of interest to international banks, who are also restricted territorially from working in most Italian regions.

Some APF consorti have recently entered the medium-term finance sector granting two- to three-year loans of up to £250m (about \$100,000). These will complement those for fixed assets obtained through credit institutions, like Mediocredito, and are allocated for development plans which also include investment in research, training and commercial activities.

They also complement the finance available through the European Investment Bank.

At the annual general meeting of Confindustria in Rome on November 28, the association presented some pioneering proposals for restructuring and improving finance for small businesses. The most fundamental proposal has been a call to the Government to create a fund of £2,000bn (£5.6bn) for small businesses not employing more than 150 employees who intend to make investment of not more than £10m in plant and equipment. £1,000bn in industrial reversion and £1bn in modernisation and reorganisation schemes. Loans would be repayable in seven years, and, according to Confindustria, could enable small businesses to create up to 30,000 new jobs.

Would such a scheme meet the call of Law 678? Not if the government will recognise the importance of small businesses by approving such a fund, since, says Sig. Giampaolo Vaccaro, president of Confindustria, "One of the most hopeful signs recently has been a new awareness on the part of politicians of the importance of small businesses, and that they require special consideration when it comes to state approval of investment funds."

Indeed, the politicians participating at the meeting indicated that something would be done. If there is a change in attitude it could represent a major turning point for small businesses in Italy.

#### PROFILE: KEN BROMLEY

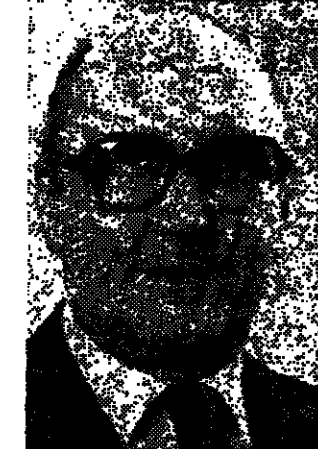
### Barclays man in Milan

**KEN BROMLEY** must be the best-known Mancunian on the Italian banking scene. As head of the versatile Barclays Group Italia, the level Mr Bromley has been a fixture in Milanese financial circles for nine years. He is married to an Italian he met while serving in the British forces in 1946 ("I met her in Rimini and we married because I wanted to ensure the future possibility of holidays by the sea").

Mr Bromley originally went into banking (he first joined the old Martins Bank in 1939) to "fill a gap before going into the foreign office marriage" in 1946, Mr Bromley recalls, marked "the first time of many that I broke bank regulations." His sin was to marry without obtaining the bank's permission as, believe-it-or-not, was required in those days. (All was made good later on when he received a letter from the board of directors providing him with approval "with retrospective effect.")

By 1969, Mr Bromley was in the Liverpool head office of Martins, co-ordinating the bank's absorption by Barclays. In 1971 he moved to Lombard Street as a Barclays divisional general manager in charge of marketing. In 1975 Barclays decided to take advantage of Italophiles Bromley and asked him to move to Milan in order to develop its then 32 per cent interest in the small Banca Castelli di Milan (Barclays secured 100 per cent ownership in 1980).

When he arrived in Milan, Mr Bromley found a staff of 40 and £100m of outstanding loans. Today Barclays Italia has 800 employees in 21 cities and a group loan book of around £1,700bn (£712bn). In 1978 the Bromley approach led to a long-term programme of expansion. "I didn't see us as just a bank but as a financial services company.



Ken Bromley, head of Barclays Group Italia - "Important to have enemies"

We never concentrate on just one thing."

So Barclays today is involved in leasing, factoring, corporate finance, mergers and acquisitions, work, consumer credit and medium-term lending as well as traditional corporate banking. One competitor rated Barclays in Italy as "one of the most successful foreign banks to penetrate the Italian market."

Not all competitors heap praise on Barclays. There are still sneers about the 1981 leasing embarrassment which resulted from the group's involvement with a machine tools company whose president is now under criminal investigation. Although the matter has still to run its course, it is likely to result in write-offs of £10m to £15m.

Mr Bromley, who has been asked by headquarters in London to stay on until next year even though he is past retirement age, makes no apologies for the leasing fiasco. He takes the "you can't get everything right" approach and reckons it is "important to have enemies - it means you are doing something right."

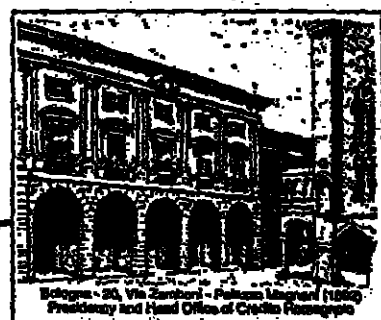
Although he plans to return to Britain next year, he won't be kept from frequent visits to Italy. "I like living in Italy and Milan is the only place to be," says the ardent Italophile.

ALAN FRIEDMAN

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Net profit for the year	28



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Credito Romagnolo is continuously improving its organization by means of direct connections with national and international Corporations and Institutions, which are mostly advanced in the telecommunication of funds transfers as well as of economic and financial information.



## ITALIAN BANKING VII

## Crucial role as guide to the economy

## Bank of Italy

JAMES BUXTON

THE BANK OF ITALY has always been by far the most important institution in the running of the post-war Italian economy. As governments come and go, and display their habitual reluctance to take economic decisions that might hurt anyone, it has fallen to the central bank to guide the economy as best it can with the weapons of monetary and credit controls.

Rarely has the central bank's role, however, become as crucial as it is today when the major economic issue is the Government's deficit and the colossal borrowing that is required to finance it. In recent weeks the Governor of the Bank of Italy, Dr Carlo Azeglio Ciampi, has been in an unusually exposed position. Almost every comment of his on the Government's economic policy is likely to make a newspaper headline.

Last year the public sector deficit amounted to L71,000bn (£30,200bn), or nearly 16 per cent of gross domestic product. This year it will be L80,000bn or 17 per cent. The target for the next year, which on current projections will not be achieved, is 15 per cent. The Government's insatiable appetite for funds means that it takes about 70 per cent of total domestic credit. The central bank is caught uneasily between the need to help the Government obtain funds and to protect other borrowers and the currency as a whole.

In 1981 the Bank of Italy was officially "divorced" from the Treasury, which meant that it was no longer obliged to buy up the Treasury bills which the Government fails to sell at auction. Nevertheless, it continued to do so within reason, and did what it could to point banks in the direction of the Treasury bill auctions, for fear of something worse—a jump in interest rates.

Dr Guido Carli, who was Governor of the bank for 15 years until 1975, told the bank's annual meeting in May 1974 that for the central bank to refuse to finance the public deficit would be "a seditious act."

At the end of last year, however, the bank showed what the divorce really meant. It exercised its right not to buy up all the Treasury bills which the Treasury wanted to sell desperately. As a result, the Treasury found itself needing to exceed the 14 per cent overnight limit with the central bank which is laid down by law. The Bank of Italy was then able to demonstrate the whip hand it had over government finance.

It obliged the Treasury to go to parliament, explain the situation of gross overspending, and ask it to pass an Act of parliament obliging the Bank of Italy to exceed temporarily by L5,000bn its lending limits to the Treasury. Although several commentators urged members of parliament to refuse to pass the legislation, there was never a serious chance of that happening and

it was not Dr Ciampi's intention. Rather, he had succeeded in showing the bank's teeth and perhaps making it that much more difficult for the Treasury to get out of such a jam again.

Even so, this year the central bank has had to raise the ceiling of the growth of total internal credit from the 18 per cent set at the beginning of the year to 21 per cent as the Government's deficit has overshoot the original target of L71,000bn by about L20,000bn. There are those who believe that if the bank took a more ruthless attitude and refused to allow total internal credit to expand as the deficit rose, thus raising the spectre of a frightening leap in interest rates, the Government would be forced to do what it has always shirked doing and actually cut its spending.

It can be questioned whether the central bank has the institutional and moral authority to do so. In any event, a start but ultimately flexible approach is perhaps more appropriate to the country in which it is operating. So delicate is the situation, however, that Dr Ciampi cannot help being involved in public controversy almost everytime he opens his mouth and there are not a few politicians, including ministers, who believe that the divorce between the bank and the Treasury ought to be cancelled and the bank made subservient to the Treasury.

## More rigid

For 1984, however, the Government appears to be committing itself much more rigidly than before. The budget statement says that the growth of the monetary base and of M2 must be kept within 12 to 14 per cent. "These objectives must be announced to the public and thus become fully verifiable," it says.

This means, at least in theory, that the Bank of Italy will have more support for a tighter monetary policy and that if the Government overspends, interest rates will go up as the Treasury competes with the private sector for funds.

Dr Ciampi's polite response to this, as expressed in a speech in Venice in October, was that the monetary targets would be met if the Government kept to its spending targets and introduced its promised incomes policy. He also said that the bank would, as usual, judge monetary growth by taking into account several indicators rather than just one. Indeed he held out the hope that if the Government did what it said it would do, there was, for the first time in years, a chance of getting Italian inflation down into single figures.

That was a kind of carrot, for a few days later the Government used the occasion of the launch of the Bank of Italy's first bulletin to indicate frustration at the lack of action by the Government in pursuing its declared economic objectives. A little later the International Monetary Fund spelt out its own frustration a great deal more strongly in a letter to the Treasury Ministry.

The new bulletin is one of

the best contributions the bank has made to the understanding of the Italian economy. Its research department is really the only official organ in the country that knows what is going on in the economy. It is happy to speak to outsiders but the bulk of its wisdom has hitherto been dispensed in the turgid and bulky annual reports of the bank, which come at each May.

The bulletin, which will come out twice a year, in autumn and spring, with the annual report making a third, bumper summer issue, is more condensed, readable and better presented, with excellent summaries of key issues such as wage indexation. It makes the research department's knowledge suddenly accessible.

Dr Ciampi, who is 63, has been Governor of the Bank of Italy since 1979. He took over after the notorious Bank of Italy affair, when politically-motivated magistrates, representing mysterious and sinister interests, made a violent assault on the bank in an attempt to shatter its moral authority and lofty independence of the Italian political scene. This was done by making legal charges against the then Governor, Dr Paolo Baffi, and Dr Mario Sarcinelli, a senior official of the bank. Dr Sarcinelli spent two weeks in prison.

The charges were completely trumped up and later dropped, and the bank's independence was not impugned. But its self-confidence was shaken and it has become very sensitive to criticism of its role in the affair. Its self-confidence was shaken. Dr Baffi resigned, an embittered man.

It may have been because of this weakened morale that the central bank hesitated for so long before taking decisive action against Sig Roberto Calvi, chairman of Banco Ambrosiano, before his bank crashed in 1983 with debts of \$1.5bn. Although the central bank acted swiftly and decisively after the crash the incident did not enhance its reputation and it has become very sensitive to criticism of its role in the affair.

Nothing that happened over Banco Ambrosiano can have encouraged the central bank to loosen the stern and highly detailed controls that it exercises over the Italian banking system, a control that does much to keep the system efficient and complacent, but which is evidently necessary because of the abuses that still occur. Indeed the Ambrosiano affair showed the bank with its guns pointing to some extent in the wrong direction: its otherwise formidable battery of controls did not include provisions to make banks disclose their ownership structure, nor are Italian banks required to produce consolidated accounts.

Both provisions would have made it a great deal more difficult for the transgressions of Sig Calvi's bank to go undetected so long. A Bill to force banks to reveal shareholders with more than a certain percentage of their shares was presented to parliament in 1982 after the Ambrosiano crash, but failed to be approved. It has now been re-presented in the new parliament.

## PROFILE: GUIDO VITALE



## Banker who shuns limelight

"In 1973 I found myself in the street, with 12 fellow executives on my back. So I decided to form my own company."

WITH THESE blunt words Dr Guido Vitale, managing director of the Milan-based Euromobiliare investment banking group, explains how he created a new animal in Italian finance. He found himself "in the street" because he was unwilling to work for the notorious Michele Sindona, convicted Sicilian tax lawyer and mentor to the late Roberto Calvi, who took over a company which Dr Vitale was running back in 1972.

Today, Euromobiliare is a publicly-quoted company with 70 employees and paid-up capital of L7.5bn (\$4.6m). It is not a major force, but like the early New York investment banks it is lean and hungry. The Euromobiliare operation is involved in stock-market financing, mergers and acquisitions, syndicated loans and is one of the very few Italian players in the Eurobond market.

Dr Vitale, who is 46-years-old, has earned the respect of many in Italy and abroad. He is hard-working, imaginative and energetic, shunning the pomp of the Milanese cocktail circuit and preferring the serious business of deal-making instead. Perhaps he is not accepted entirely as an insider in the Milanese financial elite, but this does not appear to bother him.

## Fulbright scholar

Born in Piedmont, he spent his childhood in Egypt, where he attended English, French and Italian schools. He returned to Turin in 1952 and completed his education and military service. In 1961 he became a Fulbright scholar at Columbia University, where he did postgraduate work in economics. He started his career at Mediobanca, the granddaddy of all Italian investment banking. Later he became an auditor at General Electric and in 1968 he was asked by Olivetti's De Benedetti family to run a small listed company which he built into a financial services group.

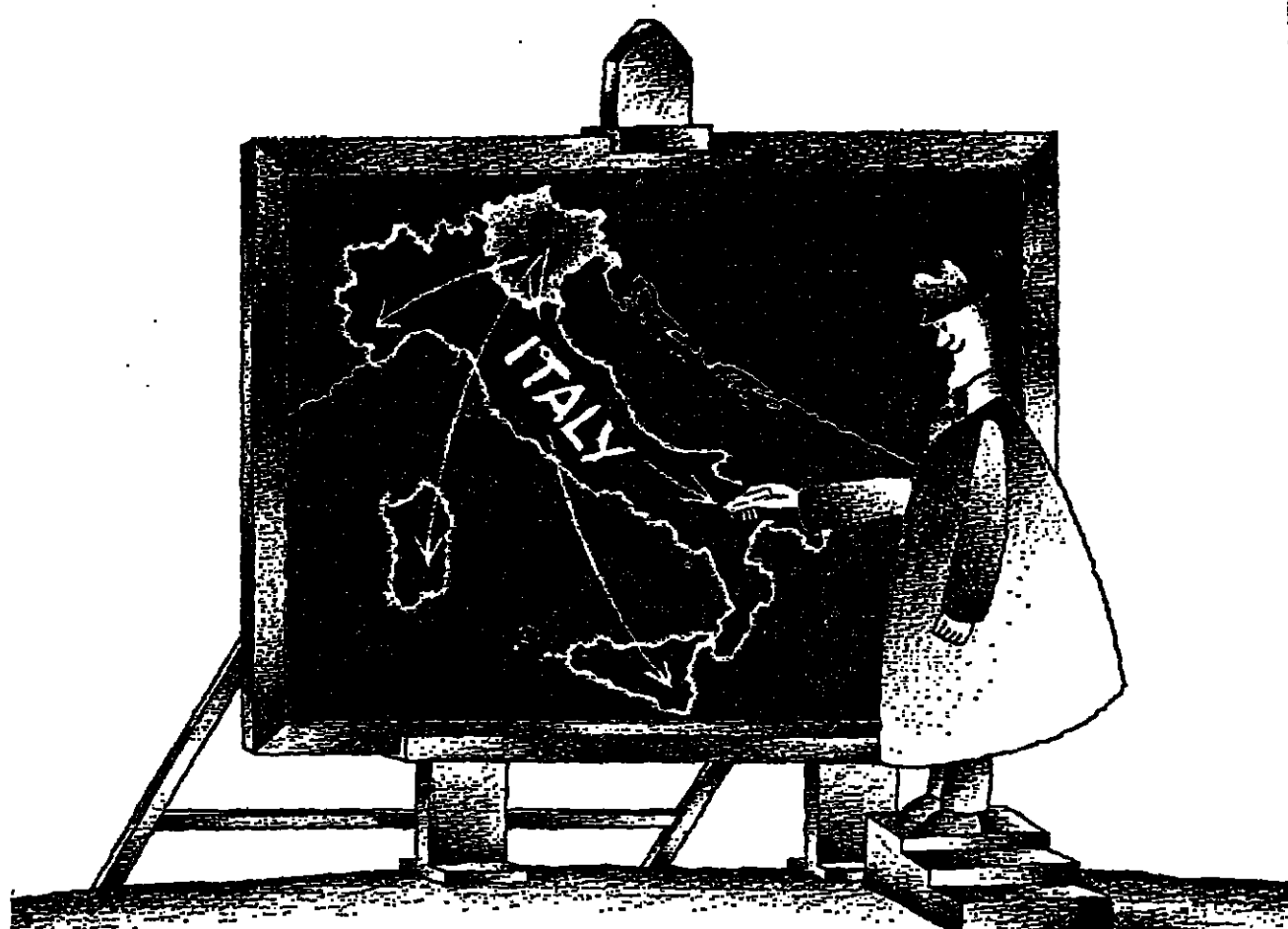
When he started Euromobiliare, it was with the backing of some of Italy's most prominent industrial families, including the Agnellis of Fiat fame and the De Benedettis. "My idea was to develop a merchant banking business in Italy. We are a company which provides the special services of a bank without being a bank," explains Dr Vitale.

At first the small band of Vitale recruits concentrated on stockbroking, money market dealing and Eurobonds. From the start, Dr Vitale went against the norm in Italy—for example, he insisted on audited accounts from companies obtaining a quote on the Milan bourse. Euromobiliare went public in 1981 with 20 per cent of the shares issued at L3,000 apiece. The shares now trade at around L4,500.

Dr Vitale's empire has grown in the last year with his merger with Confondi, a Milan fund manager which is cash-rich. The new teamwork should provide more scope for progress toward Dr Vitale's dream—to become a "bona fide" merchant bank. The main criticism levelled against Dr Vitale by his friends and colleagues is that he works too much. He is by his own admission a workaholic, spending 10 to 12 hours a day in the office. Married, with a wife who is a psychoanalyst, and two daughters, Dr Vitale spends little time away from his beloved Euromobiliare. "I like to think I would enjoy country life, but I never seem to have time," he sighs.

The prizes of Italian public life do not seem to hold much attraction for him, either. When, a few weeks ago, the Italian press mooted his name as a possible candidate for the chairmanship of Consob, the Italian stockmarket authority, Dr Vitale's reaction was typical: "What would I do about Euromobiliare? Who would run it?" He wondered aloud. No, not for Guido Vitale the limelight. He has a business to run.

ALAN FRIEDMAN



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November 1983

## ITALIAN BANKING VIII

# Bancomat network leads in Europe

### Retail banking

ALAN FRIEDMAN

THE GREAT anomaly of Italian retail banking is that while the street-level service provided to the average customer can be slow and inefficient, the system as a whole has achieved a technological breakthrough which is not yet available to customers in Britain or West Germany — an integrated nationwide network of cash dispensers.

The Bancomat cash dispenser network was launched last spring and now has a total of 600 automated teller machines (ATMs) operating throughout Italy. The ATMs, act strictly as cash dispensers in the Bancomat system: several of the participant banks offer an expanded range of ATM services to their customers only. In all, some 1,000 dispensers are expected to be in place by next year.

The Bancomat system, arrived with the gentle nudging of the Bank of Italy, marks the first unified network among Italy's 1,085 different banking institutions. It is no small achievement in a country which has traditionally had a fragmented and regionalised banking system.

One of the more difficult obstacles towards achieving this unity was the reluctance of the major banks — such as Banca Nazionale del Lavoro and Banca Commerciale Italiana — to link up with the many tiny *Casse di Risparmio* (savings banks), which meant providing even branch banks with a national network. There are 12,553

separate branches up and down the 1,000-mile Italian peninsula and in many areas a small village bank can monopolise deposit taking at the expense of the big banks.

The first group of banks to develop an ATM network was the savings banks, which in 1980-1981 introduced the Carimat system. Thus, in the words of one bank analyst, the Bancomat system is as much a "political as a technological decision."

The simple reality is that despite Italy's leap into the space age of electronic cash dispensers, its banking culture remains some years behind the rest of Western Europe (as is the case in other southern European countries such as Spain and Portugal). For one thing, Italy is not a cheque-based country. According to a recent study of Italian retail banking in "The Retail Banking Revolution," fewer than 50 per cent of Italian households have cheque accounts. This despite the fact that current accounts pay interest at the same level as deposit accounts in Italy. Deposit rates are not published in Italy — you simply shop around and try to negotiate a rate with your bank manager.

### Cash transactions

Italy is a cash-based country — around three quarters of all transactions are made in cash and less than a fifth by cheque. Only four per cent of transactions are made by credit card. A study commissioned this year by the Italian Bankers' Association (ABI) showed that almost 40 per cent of car purchases and 65 per cent of home appliance

purchases are made in cash.

Even where families have cheque accounts they often use them as savings accounts, going to the bank and drawing out large wads of cash rather than paying by cheque at shops and restaurants. Cheque guarantees cards do not exist as a nationwide concept. Whereas there are more than 14m in circulation in Britain, Italy has around 1m. Only 150 of the 1,085 banks initially accept cheque guarantee cards. Moreover, presentation of a cheque guaranteed card at a shop by no means implies that the merchant will accept a cheque.

As for credit cards, there are around 1.7m in circulation. Banca d'America e d'Italia, the wholly-owned BankAmerica subsidiary, dominates with 1.2m cards. Eurocard, which is marketed most aggressively by Credito Italiano, is a distant second with 230,000 cards. Following behind are American Express, Conto d'Identita and Diners Club. But Italians, except for bankers and businessmen with international experience, do not seem to like using credit cards. Merchants in particular do not encourage the use of cards, frequently turning their noses up at the sight of a plastic card and offering a 5 per cent discount on the purchase if the customer will opt for cash instead.

Many Italian bankers would prefer to see the system move away from its costly dependence on cash. Likewise the Bank of Italy is keen to see further progress in this direction. But the Government is, for historical reasons, not in a position yet

even to set an example — around 2.5m state sector employees are still able to collect their monthly wages in cash and more than 50 per cent do just that.

Throughout Italy civil servants, teachers, police, hospital workers and a variety of Government employees queue up each month for their wages in cash. Assuming a median salary of L1.5m a month, that is a monthly wage bill of L3,000bn (£1,280bn).

### Direct transfers

The Italian Bankers' Association has recently been holding a series of talks with the Bank of Italy to explore proposals to shift towards a system of direct transfers into bank accounts for Government employees. The stumbling block is more political than technical, however, as it would require a new law to be passed. Part of the proposal involves the banks suggesting that if they were to co-operate the Government would guarantee them a three-day float on the payroll, not a bad quid pro quo at all for the banks.

The concept of a float of interest-free funds for the banks is a key aspect of Italian banking.

Italian banks are notoriously slow in clearing cheques, even within the same city. It is not unusual for a cheque to take eight to 10 days to clear and delays of up to one month are not uncommon either. In fact the very inefficiency of Italian banking is a

kind of in-built profit generator. "I'll be frank. We make a lot on the float," admitted one Milanese banker.

Although banks may be highly automated within their own branch networks, a national interbank teleprocessing system has yet to become a reality. In other words, customers can often find themselves at the mercy of Italy's postal service, which is not exactly brilliant — partly perhaps because of the mountainous and lengthy terrain of the country.

The Bank of Italy is trying to expedite the drive towards an integrated teleprocessing system by participating in the Convenzione Interbancaria per i Problemi dell'Automazione (CIPA), the interbank committee on automation problems. If the interbank consultations are successful, Italy could find itself making more progress (admittedly from a lower base) than some of its Western European counterparts.

This is the hope of many bankers when it comes to both the Bancomat network and interbank automation. As one Bank of Italy official put it: "Perhaps we can turn our traditional cultural problems to our advantage and jump two steps from a cash-based system directly to automation." ATMs and even electronic funds transfer at the point of sale.

That looks a trifle optimistic. Although point-of-sale experiments are under way in Italy, they in no way compare in scale to the pilot projects already in place in Scandinavia, Britain and France.

## Consequences of shift in Treasury funding

### Money markets

CHARLES KENNARD

ITALIAN BANKING is a conservative world in which old adages never die, and seldom fade away: a case in point is, the adage that says the more things change, the more they remain the same.

The "Massimale," a central bank corset on bank lending, was formally abolished at the end of June. Setting monthly and annual limits on the expansion of each bank's lending (14 per cent a year for 1983), it was enforced by a system of penal deposits called by the Bank of Italy from banks which lent too much.

It was highly unpopular with the foreign banks established in Milan over the past 10 years, who believed its abolition would finally allow them to get their teeth into the fat of sluggish and over-protected domestic competitors.

Money brokers, too, looked to its removal to stimulate a range of business from interbank to Certificates of Deposit as rapidly expanding foreigners borrowed in the markets to make up for their small deposit base.

Of course, it didn't happen. In the days immediately after the phasing out, the bank received a letter from the Bank of Italy advising it with gentle persuasion to stay within the 14 per cent guideline. But that was not all.

"They called us in, bank by bank, and gave us each a figure for our lending for the rest of the year," one American banker recalled recently. "They were precise down to the last lira and cent, and I do not know a single case that was not between 13 and 15 per cent."

The Massimale, in short, has not been abolished, foreign bankers say. The only thing that has changed is that they no longer know what penalties they face for transgression. And they also do not know yet what they will be allowed to do next year.

Take, for another example, the ever-burgeoning state deficit and the crowding out of the private sector from Italy's capital markets.

In the past three years successive governments have pledged top priority to stabilising the public sector borrowing requirement, despite which it has nearly trebled to more than L90,000bn this year.

Bank of Italy figures show that public sector issues monopolised 95 per cent of the primary markets in the first nine months of this year, compared with an average 25 per cent in the early 1970s.

With clinical and practised skill the monetary authorities have aborted every attempt to nurture alternatives to the market in Treasury securities. Yet, if the basic rule of the Milan market remains necessarily a quasi-total servility to the appetites of the Treasury Ministry, it would still be wrong to say that nothing in the past year has changed.

Efforts by the monetary authorities to restructure, if not reduce, the national debt are yielding technical consequences which money market operators and monetary economists are still digesting.

Since the end of last year the Treasury, acting through the central bank, has successfully shifted the bulk of its new borrowing from short-term Treasury bills to medium-term Treasury certificates.

One practical consequence, according to bankers, has been the effective demise of secondary trading in Treasury bills, for years the staple of the Milan money markets.

Another, more theoretical, according to Prof Mario Monti, Italy's leading monetarist who teaches at Milan's Bocconi University, has been a radical distortion of published money supply figures.

Prof Monti and others point out that none of the normally watched money supply series from M1 through to M3 includes the rapidly expanding Treasury certificate issue.

Since Treasury certificates, issued with maturities ranging from two to seven years, pay half-yearly interest based on six months Treasury bill yield, it would be proper to regard

them in monetary terms as being at least as liquid as six-month paper, the argument goes.

The inference is that monetary policy is substantially more accommodating (at least to the state sector) than published statistics show and although this is hotly disputed at the central bank, market experience and the facts of Italian inflation seem to bear it out.

Leaving that issue aside, the success of the authorities in lengthening the maturity of public sector debt has been impressive, bankers say.

Between January and November the stock of Treasury certificates in circulation doubled to about L118,000bn worth from just over L59,000bn.

In the same period the stock of Treasury bills in circulation rose slightly to just under L150,000bn from about L140,000bn.

CONTINUED ON  
NEXT PAGE

## Reliance on facts

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## ITALIAN BANKING IX

## Waiting for a watchdog with teeth

## Milan Bourse

ALAN FRIEDMAN

WHAT CAN one say about a bourse which sees 80 per cent of its share trading done a long way from the official market, a bourse which plays a tiny role in providing risk capital to companies, a bourse which for years has been a den of insider trading and speculation and a bourse which has fewer listed companies than the total number of stockbrokers in Italy? One can only say "welcome to Milan!"

The Milan Bourse, largest of the 10 regional stock markets in Italy (there are markets in places such as Venice, Bologna, Turin and Rome) has been through some rough times. Founded in 1808 by a decree from Napoleon's viceroy, the Milan stock market has ridden out the scandals of Michele Sindona and Roberto Calvi but still has a long way to go.

In the darker days of the 1970s share manipulation, Sig Ugo La Malfa, one of Italy's best known Treasury Ministers, branded the few big players in Milan the "Golpisti della Borsa" ("coup-makers of the market"). La Malfa and others were concerned about the way a handful of speculators pumped, primed, fixed and generally played with share prices.

Today, for the first time in many years there exists a reasonable basis for hoping that the foundations are being laid for the development of a real and properly regulated Milan bourse. Much work has been done in recent years to achieve improved financial disclosure by companies and to encourage small investors in Italy to consider the market. Still more needs to be done.

At last count there were 154 officially quoted companies on the Milan Bourse, making for a market capitalisation of more than \$20bn. This com-

pared with a number 15 times greater in London and a London capitalisation of more than \$200bn. Most veterans in Milan reckon the market cannot hope to attain international credibility until the number of quoted shares is doubled—and this could take two to three years. But there are other obstacles to progress, some political and some cultural.

Dr Ettore Fumagalli, chairman of the Milan Bourse, reckons that the greatest obstacle is the lack of an Italian law requiring a concentration of trading in the bourse and not outside it among the banks and insurance companies. He notes that the bourse is also without rules for the public offer of shares—a prospectus, for example, is only "optional" for companies seeking a listing. There is not even an official take-over code, let alone a takeover panel.

"Our most important goal is to concentrate share trading in the stock market. Around 80 per cent of trading is outside and we need a law to regulate this," explains the chairman.

There are times frequently when the market focus is on less than a third of the listed companies. There are times when a dozen shares may account for a third to a half of trading volume. The Milan Bourse is still a provincial affair, out of step with the rest of the world's major markets and driven far more by domestic Italian political squabbles and rumours than by the performance of the world economy.

As if these problems were not enough, the market also faces another obstacle—the impossible competition for investor savings from government Treasury bonds and from bank deposit rates. Shares on the Bourse yield an average 3 or 4 per cent. The Government, driven by its insatiable appetite for funds to combat its deficit, is currently paying more than 18 per cent on its tax-free Treasury certificates. Bank

accounts, whether they be current or savings, may pay anything from 5 to 16 per cent.

## Frightened away

Moreover, the fear of being taken for a very long ride has persistently frightened away the small investor. A few large banks and insurance companies—and some of the quoted companies themselves—make most of the running. Italian savers need to be coaxed with some tangible attractions if they are to change habits. Some of Italy's leading financiers think they may have found a device for coaxing investors to the Bourse—namely the establishment for the first time of Italian unit trusts.

Following the passage of a Parliament Act last March unit trusts are to be introduced within the next few weeks. They will have to meet criteria set by the Treasury and the Bank of Italy and the emphasis will be on professional and careful management of funds. Can the development of such mutual funds entice the small investor and broaden the market's appeal?

Dr Fumagalli is one who believes it can—so much so that he is teaming up with a few other stockbrokers to start his own unit trust. To be called "Fondi Professionali" The goal is nothing less than a doubling of investors' capital within two years. "We shall try to offer a yield which will compete with the Treasury bonds," says the chairman of the Bourse. How can this be achieved? Dr Fumagalli will not elaborate. He smiles and says only that "it can be done."

Even if the advent of unit trusts and the tightening of rules on share trading and the increase in the number of quotations is achieved, there is still, however, another stumbling block. It is called Consob, the Italian Government's version of the U.S. Securities and Exchange Commission (SEC). Dr Fumagalli describes Consob,

founded in 1974, as "an indispensable body."

Indispensable it may be but "non-existent" is the way most people would describe it. Consob has had a troubled history and badly needs to prove itself to be a watchdog with teeth. Sig Vincenzo Milazzo, who resigned as chairman of the Rome-based Consob two months ago, told a Parliamentary investigation that the regulatory agency effectively did not exist. After saying that Consob "had never been born," Sig Milazzo, a former top-level government bureaucrat, went on to express his reservations about the usefulness of audited company accounts.

These are strange sentiments from the chairman of Italy's answer to the SEC. In Milan few in the bourse appear to mourn the departure of the Consob chairman.

With its patchy record Consob's reputation has nowhere to go but up. Soon to retire as a member is a Rome theatrical impresario appointed by the then Prime Minister Giulio Andreotti. At the time of writing it was expected that the Government would appoint a successor to Sig Milazzo before Christmas. This new Consob chairman, said bankers and stockbrokers in Milan, would have the political clout to do an effective job. "A new political will to act is discernable," commented Dr Urbano Aletti, former chairman of the bourse.

Politics, along with finance, has everything to do with Consob. There is little doubt that Dr Aletti's assessment is correct. The Government of Prime Minister Bettino Craxi does appear to be serious about bolstering the image of Consob and developing a true financial market in Italy. But Italy is a country where developments take longer than elsewhere in Western Europe. The potential for a revitalised and clearer Milan Bourse exists. Now it is time to wait and watch.

## PROFILE: ETTORE FUMAGALLI

## Unpretentious technocrat

IT IS a cold and frosty winter day in downtown Milan. Trawling through the crowded cafes near the Milan Bourse in Piazza Affari stockbrokers stand munching brioche and sipping espresso coffee. Dr Ettore Fumagalli, chairman of the Milan bourse, is already behind his desk at half past eight. With Milanese despatch he wastes no time at all and plunges into a discourse on the challenges facing the Italian equity market.

"Twenty-five years ago there was 39 per cent of Italy's GNP invested in the stock market—today there is only 6 per cent. The main reason is competition from government Treasury bonds. We have the second highest savings rate in the world after Japan. But Italians are not used to investing in shares. They put their money in the banks and the banks, which are very politicised, put their money into government bonds."

This is one of Dr Fumagalli's favourite themes—the way "the politicians take the money from the banks and fends the deficit." It is a theme echoed by bankers, stockbrokers and senior corporate executives. Most financiers agree that among the more serious problems facing the Milan Bourse is competition from government bonds, which yield five times the return on shares.

What can be done then to rectify the situation? Dr Fumagalli, who has been a member of the executive of the Milan Stockbroker Committee since 1969, says that banks must be willing to put capital into the new unit trusts which are being prepared for launch in Italy. "Then we will have some of the public's savings going into the equity market. It is indirect but later on the small investors will come to participate," opines Dr Fumagalli. He is an unpretentious stock exchange chairman. Married with three children,

aged 46, a member of the Milan Rotary Club, Dr Fumagalli comes from a prominent stockbroking family. He is the pinnacle of Milanese tradition, a technocrat rather than a showman.

Whether he can bring his influence to bear on the problems of the Bourse is another matter. Unlike some members of Milan's tight financial circles, Dr Fumagalli does not approve of unregulated investment. He singles out, for example, the "Titoli Atipici," or atypical shares. These are sold not through brokers but door-to-door by travelling salesmen. "I don't like this door-to-door business. Somebody promises something and too many Italians are willing to believe the promises. We have to do something about this."

The problem for the up-right Dr Fumagalli is that "doing something" in the thickly layered financial world of Milan is easier said than done.

ALAN FRIEDMAN

## Money markets

CONTINUED FROM PREVIOUS PAGE

But within that total, the stock of three-month bills fell from about £18,000bn to about £13,000bn while the six-month bill circulation fell from about £70,000bn to £65,000bn. Only the 12-month issue has risen, to about £71,000bn from around £52,000bn.

Treasury bills accounted for 18 per cent of state sector securities issued in the first nine months of this year, against 73 per cent in the same period last year, and their average maturity at issue was extended to almost eight months, from five. The same has happened with Treasury certificates, with the average maturity at issue almost doubled during the year to near five years from 2.5

## Yield cut

Despite recurrent market resistance average issue yield on three-month bills was cut to 13.63 per cent in November from 18.2 per cent in January.

With four-year Treasury certificates still yielding an initial 18.4 per cent and seven-year paper yielding 19.6 per cent, investors have followed their nose to the long end, as the Bank of Italy clearly desired.

For the secondary markets there have been at least three significant consequences, bankers say. Firstly, trading turnover in Treasury certificates, once negligible, has soared to several billions of lire a day.

Conversely, trading in Treasury bills, once the staple of the money markets, has slumped to almost nothing, with buyers deterred both by the relatively low yields and the thinness of the market. Dealers say the market flickers into life now only for a day or two after each primary auction when the banks are busy correcting their mis-estimate of customer demand.

As a secondary consequence, some dealers say, the increasingly large mass of medium-term debt tied through floating rates to an increasingly small base of six-month paper, has given the Treasury a rate and easy opportunity to slice its debt service costs next year by manipulating down the yields on the six-month bill issue.

Meanwhile, however, yields on medium-term paper clearly remain attractive, especially if viewed against those available on comparable Deutsche mark and sterling paper.

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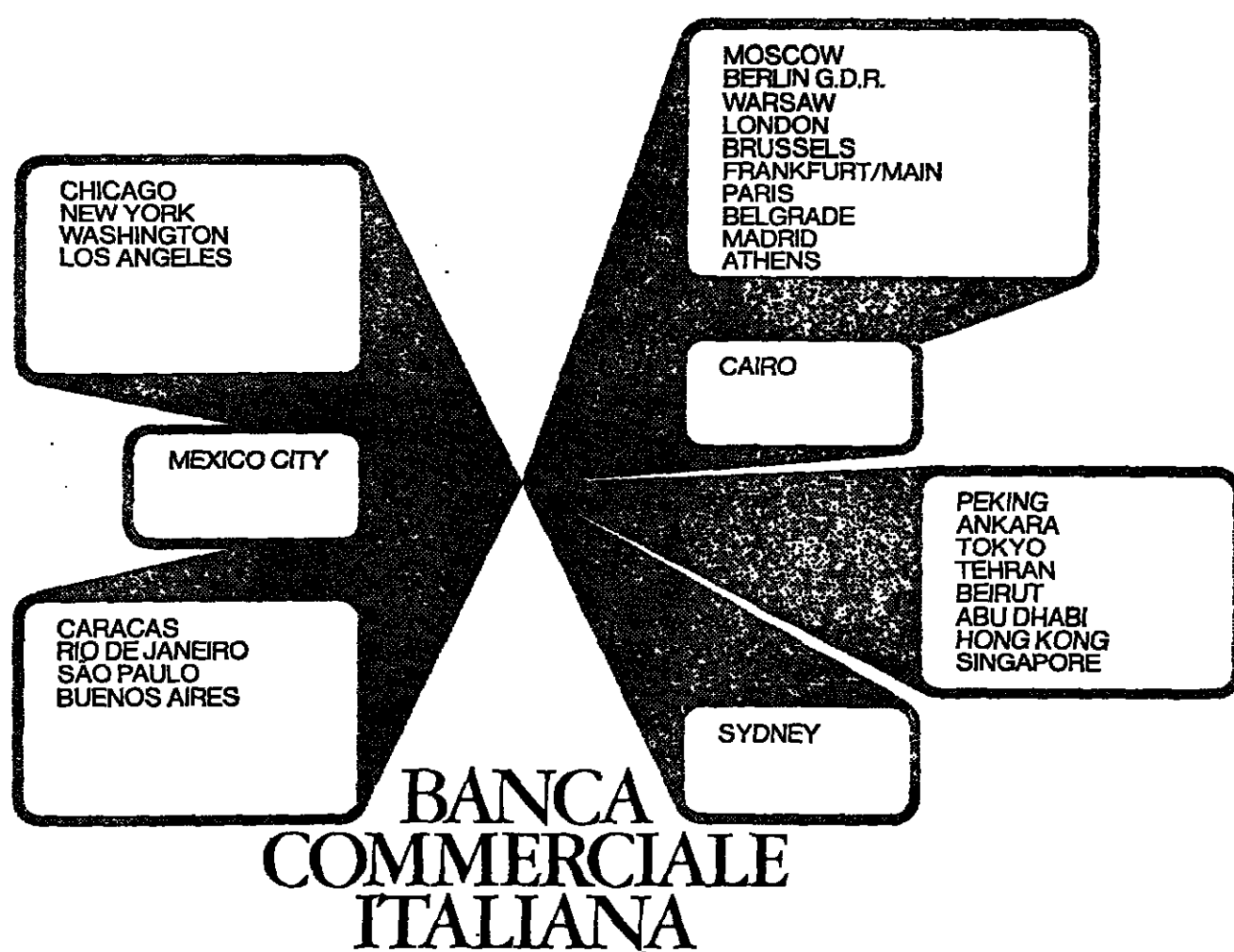
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## ITALIAN BANKING X

# Dispute over Vatican bank's involvement drags on

### Aftermath of Ambrosiano

JAMES SUTTON

THE COMPLETE truth about what really happened at Banco Ambrosiano under Sig Roberto Calvi and how the doomed banker ended up hanging under Blackfriars Bridge in the City of London in June 1982 will probably not be known for years—if ever.

But by now at least one part of the story—the relationship between the now defunct bank and the Vatican—ought to have been a little clearer, thanks to the setting up last Christmas of a joint commission of the Vatican and Italy aimed at examining what happened and laying the basis for a settlement.

Yet not only are the facts as obscure as ever, at least to the interested public; there had, at the time of writing, been no settlement. The joint commission has repeatedly warned deadlines for finishing its work and though the report is now complete and has been handed over to a few interested bodies in Italy, it is not unanimous on what happened. Even so, there are indications that talks now in progress with the Vatican will in the end lead to a partial resolution of the issue. That should unlock other negotiations on the aftermath of Banco Ambrosiano which are still pending, amid a spider's web of interlocking writs.

When the bank went under, with debts of almost \$1.3bn, a consortium of seven banks—three public sector and four private, was wheeled in to take over the banking operation. Jointly they now own Nuovo Banco Ambrosiano, the successor to the defunct bank. They were also allowed to retain Banco Ambrosiano's subsidiary, the finance company La Centrale, which controlled two other banks, Banco Cattolica del Veneto and Credito Varesino, and the insurance com-

pany Toro, and held a 40 per cent stake in the Rizzoli publishing group, which owns Corriere della Sera, the Milan newspaper.

Nuovo Banco Ambrosiano, chaired by Professor Giovanni Brazzoli, has struggled hard to regain the deposit base it had before the crash, offering depositors interest rates well above those paid by other banks. It succeeded in getting its deposits up to about £3,000bn by the end of June this year, compared with less than £2,000bn when the new bank was established in August 1982 and the £4,000bn which was on the old bank's books before it collapsed.

### New branches

It has also managed to reduce its staff slightly in line with its reduced business and has started to open new branches in areas more promising than those of the old bank, whose branch structure had become ossified and inappropriate to customers' needs. It has issued warrants to the small shareholders of the old bank who lost their money when it crashed which will enable them to buy shares in the new bank at a later stage. In its first operating year Nuovo Banco Ambrosiano made a loss of £24.9bn and does not expect to be in profit before 1985.

Its future is not without uncertainties. How long do its shareholder banks want to subsidise it? Conversely, do they want it to flourish to the extent of taking away some of their own business? Will it ever gain the image of an independent bank, untarnished by the politicking that has surrounded it both before and after the crash? Professor Brazzoli admits that it may have been a mistake to retain the Ambrosiano name. As for La Centrale, that too made a loss in the year to June 30, 1983, though its debt has been reduced by the sale of its controlling stake in Toro Insurance to a consortium led by the Agnelli family. The major questions mark now is over the fate of the Rizzoli stake, which

is complicated by the intricate financial ties of the publishing company (still in controlled administration) and the political implications of handing over control of such an important organ as a newspaper to any one group of businessmen. La Centrale's two banks remain healthy profitable, however.

When Banco Ambrosiano crashed the Bank of Italy stepped in to pay off domestic and foreign creditors of the Milan bank. But it did not do the same for the 89 banks which had lent about \$450m to Banco Ambrosiano Holding. Ambrosiano's subsidiary in Luxembourg, and the parent of Ambrosiano's network of mysterious overseas offshoots. The central bank did not do so because it reckoned it had no control over the Luxembourg operation and considered that the lending banks should have known this, even though the loans booked through Luxembourg were arranged at the Milan office of Banco Ambrosiano.

Last March the creditor banks, led by Britain's National Westminster and Midland, issued writs against the liquidators of Banco Ambrosiano and against Nuovo Banco Ambrosiano for the recovery of the \$450m. Anxious to minimise the damage to Italy's financial image abroad, the Italian authorities have made gradually rising offers of partial settlement of these debts, with the latest offers exceeding 50 per cent of the sums claimed. But where the money for the settlement will come from depends on the discussion price, now being pursued with the Vatican.

The Vatican bank, the Istituto per le Opere di Religione (IOR) directly owned two, and indirectly another eight, of the money companies to which the missing \$1.3bn was lent. But it denied that it had any responsibility for them because, it claimed in November last year, it had not known what they were up to, had never run them and had been consistently duped by Calvi, in whom it had mistakenly put its trust.

Few people in Italy easily accept this exculpation, especially as evidence of highly questionable deals between the IOR and Calvi have come to light, making it difficult to believe that the IOR was completely ingenuous. In any event the Vatican and the Italian state agreed last Christmas to set up a six-man joint commission with three representatives of each side to examine the Banco Ambrosiano-IOR affair and lay the basis for a settlement.

The commission travelled to different countries involved in the affair, studied countless documents and spoke to dozens of witnesses. It produced — so it said by those who have seen the report — detailed reconstructions of some of the key transactions between IOR and Calvi. But though the report is a single one, the interpretations of some key events in the story offered by the two sides in the commission differ, with the Italian side considering the IOR responsible and the Vatican side sticking to its

### PROFILE: Banco di Napoli

## New leaders bring boardroom peace

A CURIOUS thing has happened in the world of Italian banking. For nearly a year now the newspapers have been without lurid articles on the boardroom wrangling of Banco di Napoli.

Banco di Napoli is the country's sixth biggest bank in terms of assets, with one of the most branches (nearly 500), most of them in the south of the country, where it formerly issued the currency.

But despite its distinguished history, dating back at least to the 15th century, the bank's operations have lately become increasingly antiquated, its management unprofessional and its links with local political interests in Naples questionable. To sort it out the Government in early 1980 appointed Dr Rinaldo Ossola, a former senior official of the Bank of Italy and then a Minister, to become its new chairman.

In theory Dr Ossola was the ideal man to reform the Banco di Napoli. In practice his three years there were a demonstration that the methods and principles of Northern Italy, where Dr Ossola comes from, rarely blend with the Bourbon attitudes of the South.

Dr Ossola did bring about some changes at the bank. But on major issues he was repeatedly blocked by the entrenched Christian Democrat establishment there who dominated the board. The explosions and insults exchanged in the boardroom reverberated round Italy. Finally at the end of last year Dr Ossola resigned.

### Experienced man

Soon afterwards the Government appointed Professor Ferdinando Ventriglia to be general manager and in April named Professor Luigi Coccioli as chairman. Sr Ventriglia is an experienced banker, having previously run Isveimer, the development body for Southern Italy. He has also been director general of the Treasury and managing director of Banco di Roma.

Sr Coccioli had since 1979 been chairman of Istituto Bancario San Paolo di Torino, often considered one of the country's best managed banks. He is a skilful manoeuvrer and gets on well with everyone. But the key fact is that both he and Sr Ventriglia are Neapolitans — the essential prerequisite for running Banco di Napoli successfully.

For it is significant that once Dr Ossola had gone (he is now chairman of the successful Credito Varesino, as well as holding many boardroom appointments) the board of the Naples bank approved the revised statute for the bank giving it a better management structure—something it had

tenaciously refused to accept when Dr Ossola was in charge. Sig Coccioli, who wisely does not care to talk about Banco di Napoli's recent past, moved swiftly to remedy one of the bank's long-standing weaknesses—its shortage of capital. He succeeded in bringing in senior politicians to meet in Naples at the height of last summer's election campaign and won pledges from them that something would be done to meet the state-owned bank's need for £1,500bn over the next 10 years in new Government funds—a staggering amount by any standards. Half of this—£900bn—is needed almost at once.

As he pointed out, the bank's net assets of £853bn amount to only 7.5 per cent of total credits advanced (£11,289bn), whereas the other state-owned banks have a ratio of 13 per cent and banks in the north of the country 15 per cent. Given the high risk of lending in the South the ratio for Banco di Napoli ought if anything to be higher. Yet, as Sr Ventriglia complained at the meeting, some £84bn of a £141bn capital increase for the bank approved by Parliament in 1981 had yet to be paid.

Sig Coccioli said later that a "kind of letter of intent was signed" though he did not expect it to be acted on with much despatch. Nor has it been, given the frightening dimensions of the Government's deficit. But there is hope of inserting the capital increase—or part of it—into the Bill for the reorganisation of the Cassa per il Mezzogiorno, the state concern which provides funds for the South. That could prove complicated, however. Meanwhile, Sig Coccioli is keeping up the pressure.

"What I'm saying to the Treasury is this," says Sig Coccioli. "I made all that money for you when I was running San Paolo di Torino. Now I want some of it back."

Another way of securing new resources would be to make use of the clause in the bank's new statutes — still to be officially approved — that allows 30 per cent of the shares to be sold to private interests, including foreign banks. But the new leaders of Banco di Napoli do not seem very keen on that option for the moment. It would mean changing the ownership structure of the bank possibly to allow it to be quoted on the Milan Stock Exchange and a further shake-up in the boardroom just after the board has settled down. "The board has been voting unanimously since my arrival," says Sig Coccioli. "We'd rather get new funds from the government first and then look for another partner — or perhaps they will come to us."

JAMES SUTTON

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